OCCASIONAL STUDIES
NO. 13 APRIL 1980

COMMERCIAL BANKING TRENDS, 1950-1979: A SURVEY OF UNITED STATES AND SOUTH CAROLINA DEVELOPMENTS

Olin S. Pugh

DIVISION OF RESEARCH
COLLEGE OF BUSINESS ADMINISTRATION
THE UNIVERSITY OF SOUTH CAROLINA

BEST AVAILABLE COPY

DIVISION OF RESEARCH
COLLEGE OF BUSINESS ADMINISTRATION
THE UNIVERSITY OF SOUTH CAROLINA

JAMES B. HOLDERMAN,
University President

JAMES F. KANE,
Dean, College of
Business Administration

J. STANLEY FRYER,
Director, Division
of Research

JAMES M. BLACK, Editor

VIRGINIA ANN VAN SETERS, Associate Editor

No. 13 OCCASIONAL STUDIES April 1980

COMMERCIAL BANKING TRENDS, 1950-1979: A SURVEY OF UNITED STATES AND SOUTH CAROLINA DEVELOPMENTS

By

Olin S. Pugh,
Holder of the Chair of Banking and
Professor of Banking and Finance,
The University of South Carolina

Division of Research
College of Business Administration
The University of South Carolina

PREFACE

This OCCASIONAL STUDY is a part of the research effort of the Chair of Banking Program in the College of Business Administration. The Chair of Banking is sponsored by the South Carolina Bankers Association.

The overall approach and content of this study provide continuity in portraying the fundamental changes in commercial bank assets and liabilities over an extended period. National and state developments are discussed throughout the study.

This OCCASIONAL STUDY may be compared with earlier studies published by the Research Division of the College of Business Administration. Of these, the following three are particularly relevant:

(1) Difficult Decades of Banking: A Comparative Survey of Banking Developments in South Carolina and the United States, 1920-1940, published in 1964.

(2) Commercial Banking in South Carolina, 1940-1962, published in 1963.

(3) Banking Activity in South Carolina, 1960-1974, published in 1975.

The writer is indebted to the membership of the Bankers Association which has made possible the completion of these and numerous other studies.

The writer appreciates the services of Ms. Anne Davis in manuscript preparation; Al Brown, holder of the fellowship sponsored by the Past-Presidents of the Bankers Association, in tabular preparation; and Ms. Virginia Ann Van Seters, of the Division of Research, in editorial services. The writer assumes responsibility for any errors that may remain in the manuscript.

Olin S. Pugh

March 1980

TABLE OF CONTENTS

Preface		iii
CHAPTER I	OVERALL GROWTH AND STRUCTURAL CHANGES	1
	Banking Structure	2
	Population and Income per Bank and per Banking Office	8
CHAPTER II	GROWTH AND CHANGE IN COMMERCIAL BANK ASSETS	18
	Cash and Due from Banks	18
	Obligations of United States Treasury and Federal Agencies	21
	Obligations of States and Political Subdivisions, and Other Securities	23
	Total Loans of Banks in the United States and South Carolina	25
	Commercial and Industrial Loans	28
	Loans to Individuals	29
	Real Estate Loans	33
	Loans to Farmers	37
	Bank Premises and Miscellaneous Assets	39
CHAPTER III	CHANGES IN SOURCES OF FUNDS: DEPOSITS, OTHER LIABILITIES, AND CAPITAL ACCOUNTS	43
	Demand, Savings, and Time Deposits	43
	Deposits of Governmental Units	49
	Deposits of Other Banks with South Carolina Banks	50
	Nondeposit Miscellaneous Liabilities	51
	Growth in Bank Capital Accounts	53

CHAPTER IV INCOME, PROFIT, AND EMPLOYMENT IN SOUTH CAROLINA BANKS 59

Operating Income, Expenses, and Profitability of South Carolina Banks 59

Employment and Salaries in Banks 69

CHAPTER V RECENT DEVELOPMENTS IN THE BANKING INDUSTRY: A GLIMPSE AT ITS FUTURE 74

Structural and Size Changes 74

Changes in Sources and Uses of Funds in Banking . 76

Income and Employment Changes 81

Commercial Banking in the Eighties 83

Previous Publications . . . . . 3rd Cover

LIST OF TABLES

Table		Page
1	Commercial Banks and Banking Offices in the United States and South Carolina	3
2	Unit Banking, Branch Banking, and Insured Status of Banks in South Carolina	6
3	Distribution of Banks by Deposit Size in 1970 and 1978 in the United States and South Carolina	7
4	Population per Bank and per Banking Office in the United States and South Carolina	9
5	Personal Income per Bank and per Banking Office in the United States and South Carolina	11
6	Average Resources per Bank and per Banking Office in the United States and South Carolina	12
7	Banking Resources per Person in the United States and South Carolina	14
8	Growth of Total Banking Assets in the United States and South Carolina	15
9	Total Assets of Insured Commercial Banks in the United States and South Carolina	16
10	Cash and Due from Banks in the United States and South Carolina	20
11	United States Treasury and Government Agency Obligations in the United States and South Carolina	22
12	State and Local Government, and Other Security Holdings in the United States and South Carolina	24
13	Total Loans and Discounts (Net of Valuation Reserves) in the United States and South Carolina	27
14	Commercial and Industrial Loans in the United States and South Carolina	30
15	Individual Loans for Personal Expenditures in the United States and South Carolina	32
16	Certain Categories of Consumer Loans of All Insured Commercial Banks in South Carolina	34

17	Total Real Estate Loans in the United States and South Carolina	36
18	Real Estate Loans Secured by Residential Properties in the United States and South Carolina	38
19	Bank Loans to Farmers (Excluding Real Estate) in the United States and South Carolina	40
20	Bank Premises and Miscellaneous Assets in the United States and South Carolina	42
21	Total Demand, Time, and Savings Deposits of Commercial Banks in the United States and South Carolina	45
22	Demand, Time, and Savings Deposits of Commercial Banks As a Percentage of Total Deposits in the United States and South Carolina	46
23	Deposits of Federal and Municipal Governments in South Carolina Banks	47
24	Deposits of Other Banks in South Carolina Banks	52
25	Total Capital Structure As a Percentage of Total Assets of Commercial Banks in the United States and South Carolina	54
26	Subordinated Notes and Debentures As a Part of Bank Capital Structure in the United States and South Carolina	56
27	Capital Structure of South Carolina Banks	58
28	Interest on Securities and Interest and Discount on Loans As Percentages of Current Operating Revenue of Insured Banks in the United States and South Carolina	60
29	Income and Expenses of Commercial Banks in South Carolina	62
30	Income and Expense Items As a Percentage of Total Operating Income in South Carolina Banks	63
31	Income and Expenses of Commercial Banks in the United States As a Percentage of Total Operating Income	64
32	Ratios of Net Profits after Taxes of Insured Banks in the United States and South Carolina	68
33	Bank Employment and Salaries and Benefits in Banks in the United States and South Carolina	70

34 Relationship of Bank Employment to Bank Deposits in the United States and South Carolina 72

35 Assets and Liabilities of Insured Commercial Banks in the United States and South Carolina 77

36 Percentage Distribution of Assets and Liabilities of Insured Banks in the United States and South Carolina . . 78

CHAPTER I

OVERALL GROWTH AND STRUCTURAL CHANGES

There have been monumental changes in commercial banking in the United States and South Carolina in the preceding 25 years or so. The pace of change accelerated in the 1960's and continued throughout most of the 1970's. Most of the changes are the result of the underlying economic growth patterns of the state and nation but many other changes may also be attributed to underlying social and political factors. Since the banking industry reflects the business and consumer markets it serves, these interrelationships are inevitable.

This monograph attempts to set forth in as direct a manner as possible many of the underlying changes in banking structure in the state and nation, the growth and changing composition of assets and liabilities, and the general profitability of the industry. Since most of the factors that impact upon the banking industry are national in scope, the comparisons made between South Carolina and the United States provide a perspective for evaluating local developments. A growing urban population, rising levels of income and employment, an expanding industrial base, changes in Federal laws and regulations, and overall shifts in demand for banking services are among the contributing factors to the many changes summarized in this study. Earlier studies of a similar nature were published in 1963 and 1975 by this author and the Bureau of Business and Economic Research. The magnitude of the changes over the extensive period and the many changes

presently underway in the financial markets should make the results of the study worthwhile.

Banking Structure

The number of banking institutions in the United States and in South Carolina remained rather stable throughout the 1950's. As may be noted from Table 1, the number of banks in the United States declined from 14,164 in 1950 to 13,484 in 1960. South Carolina banks fell in number from 148 to 145 over the 1950-1960 period, a very slight change indeed. In the realm of branching, there was growth, but still of rather modest proportions by later standards. Total branches in the United States increased from 4,945 in 1950 to 10,619 in 1960; in South Carolina the number of branches moved from a very low level of 49 in 1950 to 147 in 1960. For a state with statewide branching laws, South Carolina continued as a unit banking state in the 1950's, partly due to a rather stable population and a low level of per capita income.

Banking offices grew very rapidly in the 1960's while the number of banking firms remained fairly stable in the nation and declined significantly in the state. Despite the merger and consolidation movement of the 1960's, the number of banks increased slightly in the nation, rising from 13,484 to 13,705 in 1970. In South Carolina there was a considerable decline in banks, from 145 in 1960 to 102 in 1970. As an example of the forces at work over the period, there were 3,602 banks formed in the United States between the beginning of 1960 and the end of 1976. Since 2,391 banks were either merged, absorbed, or liquidated, there was a net increase of 1,211 banks in the United States. On the other hand, in South Carolina there were 22 new banks organized in the 1960-1975 period, while 76 were merged, absorbed or liquidated, resulting

TABLE 1

COMMERCIAL BANKS AND BANKING OFFICES IN
THE UNITED STATES AND SOUTH CAROLINA

December 31	United States			South Carolina		
	Banks	Branches	Total	Banks	Branches	Total
1950	14,164	4,945	19,109	148	49	197
1955	13,756	7,062	20,818	149	86	235
1960	13,484	10,619	24,103	145	147	292
1962	13,439	12,491	25,930	142	186	328
1964	13,775	14,771	28,546	133	242	375
1966	13,785	17,087	30,872	128	302	430
1968	13,698	19,222	32,920	118	351	469
1970	13,705	21,880	35.585	102	418	520
1971	13,804	23,370	37,174	99	459	558
1972	13,950	24,872	38,822	94	499	593
1973	14,194	26,718	40,912	91	548	639
1974	14,481	28,705	43,186	91	581	672
1975	14,654	30,262	44,916	90	601	691
1976	14,697	31,402	46,099	90	607	697
1977	14,740	33,171	47,911	88	629	717
1978	14,741	34,857	49,598	87	662	749

Source: F.D.I.C. Annual Reports.

in a net decline of 54 banks in the state. (Derived from Bruce J. Summers, "Perspectives on Fifth District Banking: 1960-1976," Economic Review, Federal Reserve Bank of Richmond, March-April 1978.)

The number of branches in the United States increased from 10,619 in 1960 to 21,880 in 1970, or an increase of 106 percent. In South Carolina, the number of branches rose from 147 to 418 in the period, or an increase of 184 percent. This was the decade of rapid growth in banking facilities as banks became more and more sensitive to consumer desires for convenience and availability. An aggressive branching posture was taken to assure that banks were meeting their customer needs as well as positioning themselves in the market for future growth.

The number of banks in the United States continued a modest growth pattern in the 1970-1978 period, rising from 13,705 to 14,741. On the other hand, the number of banks in South Carolina declined somewhat, falling from 102 in 1970 to 87 in 1978 through mergers and consolidations and 1 failure.

The branching movement continued in the 1970's, particularly in the 1970-1974 period. In the United States, bank branches jumped from 21,880 to 34,857 at the end of 1978, or an increase of 59 percent. In South Carolina branches advanced from 418 in 1970 to 662 in 1978, or 58 percent. Over the most relevant period of branch expansion in the nation, between 1960 and 1978, branches in the United States increased 228 percent and 350 percent in South Carolina. No similar increases in branching are to be expected in the future, certainly not in terms of branches with complete structures and range of services. Automated teller and transfer services will be used as a means of market expansion to a much greater extent in the future than will full-fledged banking facilities.

The growth of branch-banking in South Carolina has spread to almost all sectors of banking. In the 1950's, most of the banks did not operate any branches (112 out of 149 in 1955); by 1978, only 20 banks out of a total of 87 were unit banks. As shown by the data of Table 2, the proportion of national banks operating branches remained consistently higher than for state banks throughout the period. Noninsured banking in the state had disappeared by 1970. In 1950, there had been 17 non-insured banks, by 1960 there were but 6, and 1 continued as non-insured until 1969. The elimination of noninsured banking and the virtual elimination of nonpar banking were both distinct improvements in the state banking system over the period.

Rapid growth in deposits, combined with some reduction in numbers, has led to larger banks in the state and nation. Table 3 consists of the number of banks classified by deposit size and their relative holdings of total deposits in 1970 and 1978. In general, there have been shifts in the number of banks toward the larger size ranges. In 1970, there were 83 percent of the banks in the United States with deposits under $25 million and they held 19 percent of total deposits; by 1978 in the United States, banks with deposits under $25 million accounted for 57 percent of the banks holding 7.3 percent of total deposits. In South Carolina, banks under $25 million in deposits accounted for 89 percent of all banks in 1970 and 27 percent of bank deposits; in 1978, these were 62 percent of the banks with 11 percent of the deposits. In the $25- to $100-million size range, deposit holdings in the United States were 17 percent in 1970 and 16 percent in 1978; in South Carolina, this size range of banks held 15 percent in 1970 and 20 percent in 1978. Among those banks with deposits above

TABLE 2

UNIT BANKING, BRANCH BANKING, AND INSURED STATUS OF BANKS IN SOUTH CAROLINA

December 31	National Banks		Insured State Banks		Noninsured State Banks	Total Banks
	Unit Banks	Operating Branches	Unit Banks	Operating Branches	Unit Banks	
1950	20	5	94	12	17	148
1955	16	10	96	17	10	149
1960	8	17	90	24	6	145
1962	10	16	78	34	4	142
1964	5	20	66	38	4	133
1966	5	21	52	46	4	128
1968	4	20	46	47	1	118
1970	4	15	36	47	-	102
1971	4	15	30	50	-	99
1972	4	15	29	46	-	94
1973	3	16	25	47	-	91
1974	2	16	26	47	-	91
1975	3	16	24	47	-	90
1976	3	16	22	49	-	90
1977	2	17	21	48	-	88
1978	1	17	19	50	-	87

Source: Same as Table 1; this study.

TABLE 3

DISTRIBUTION OF BANKS BY DEPOSIT SIZE IN 1970 AND 1978 IN THE UNITED STATES AND SOUTH CAROLINA

	1970		1978	
	Number of Banks	Percentage of Deposits Held	Number of Banks	Percentage of Deposits Held
United States				
All Banks	13,511	100%	14,740	100%
Deposit Groupings				
Under $5 million	4,377	3	1,158	0.3
$5-10 million	3,449	5	2,381	1
$10-25 million	3,388	11	4,861	6
$25-50 million	1,210	9	3,228	8
$50-100 million	536	8	1,625	8
$100-400 million	426	19	1,152	15
Over $500 million	125	46	335	62
South Carolina				
All Banks	101	100%	87	100%
Deposit Groupings				
Under $5 million	26	3	10	1
$5-10 million	43	11	9	1
$10-25 million	20	13	35	9
$25-50 million	3	4	15	8
$50-100 million	4	11	11	12
$100-500 million	4	36	3	13
Over $500 million	1	22	4	55

Sources: F.D.I.C. Annual Report and South Carolina Bankers Association.

$100 million, amounting to 551 in 1970 and 1,487 in 1978 in the United States and 5 and 7, respectively, in South Carolina, the total deposit shares shifted from 65 percent to 77 percent in the United States and from 58 percent to 68 percent in South Carolina. If account is taken of the inflationary growth over the 1970-1978 period, there is no reason to conclude that the major banks have acquired larger shares of the total market in recent years.

Population and Income per Bank and per Banking Office

The rather rapid growth in population over the 1950-1978 period and the stable number of banking institutions in the nation together with an absolute decline in the number of banks in South Carolina, has led to a significant increase in the population per bank. This does not include the rapid growth of competing depository institutions over the years, however. Population per bank in the United States in 1950 was but 10,710 which increased to 14,871 in 1970, and was 14,793 in 1978. The shift in South Carolina was still more dramatic. The population per bank in the state grew from 14,320 in 1950, to 25,402 in 1970, to 33,540 in 1978. (See Table 4 for details.)

The branching movement in banking has been running ahead of population growth in both the state and the nation. Population per banking office in the United States declined from 7,940 in 1950, to 5,727 in 1970, to 4,397 in 1978. In South Carolina, population per office has fallen from 10,760 in 1950, to 4,983 in 1970, to 3,896 in 1978. Thus the number of people per banking office has declined more rapidly in South Carolina than in the United States.

Personal income per bank in South Carolina compares very favorably with national developments due to the relatively small number of banks

TABLE 4

POPULATION PER BANK AND PER BANKING OFFICE
IN THE UNITED STATES AND SOUTH CAROLINA

December 31	United States		South Carolina	
	Per Bank	Per Office	Per Bank	Per Office
1950	10,710	7,940	14,320	10,760
1960	13,347	7,467	16,497	8,192
1966	14,182	6,333	19,688	5,860
1970	14,871	5,727	25,402	4,983
1973	14,784	5,129	29,956	4,266
1975	14,539	4,743	31,289	4,075
1978	14,793	4,397	33,540	3,396

Source: Calculated from Bureau of Census and F.D.I.C. data.

in the state. On the other hand, the relatively large number of branches in the state and the somewhat lower level of personal income result in a smaller income base per banking office. As may be observed from Table 5, personal income per banking office remains significantly below the national levels. Combined with the structure and size of competing depository institutions in the state and the nation it follows that the dollar resources available to banking offices are lower than in the nation.

Table 6 sets forth the average resources per banking office. The overall trend has been for the average size of banks in South Carolina to rise more rapidly than in the United States, partly as a result of the fairly stable number of banks in the nation and the declining number in the state. In 1950, average resources per bank were only $4.9 million in South Carolina, much below the $11.1 million level in the nation, by 1970, the respective numbers were $27.5 million and $42.4 million, and by 1978, the relationship was $83.2 million in the United States and $68.6 million in South Carolina. On the other hand, average resources per banking office is particularly low in South Carolina in comparison with the nation. There was very little dollar growth in average size of branches between 1950 and 1960, and the rapid growth of branches in the 1960's held down the average size of each office. By 1970, average resources per office in the United States was $16.3 million while in South Carolina the comparable number was $5.4 million; in 1978, the United States average was $24.7 million while the South Carolina average was but $8.0 million. Resources available to many of the banking offices are quite low, and they have little chance of growing rapidly in the immediate future. Dollar

TABLE 5

PERSONAL INCOME PER BANK AND PER BANKING OFFICE
IN THE UNITED STATES AND SOUTH CAROLINA
(in millions of dollars)

December 31	United States		South Carolina	
	Per Bank	Per Office	Per Bank	Per Office
1950	$15.9	$11.8	$ 12.6	$ 9.5
1960	29.7	16.6	22.9	11.4
1966	42.6	19.0	41.9	12.5
1970	59.0	22.7	76.1	14.9
1973	74.5	25.9	116.3	16.6
1975	85.2	27.8	145.9	19.0
1978	115.9	34.5	210.9	24.5

Source: Compiled from Survey of Current Business and Table 4, this study.

TABLE 6

AVERAGE RESOURCES PER BANK AND PER BANKING OFFICE
IN THE UNITED STATES AND SOUTH CAROLINA
(in millions of dollars)

December 31	United States		South Carolina	
	Per Bank	Per Office	Per Bank	Per Office
1950	$11.1	$ 8.3	$ 4.9	$3.7
1955	14.6	9.6	6.2	3.9
1960	19.2	10.7	7.9	3.9
1966	29.5	13.2	14.0	4.2
1970	42.4	16.3	27.5	5.4
1973	59.4	20.6	48.1	6.8
1975	64.1	20.9	52.1	6.8
1978	83.2	24.7	68.6	8.0

Source: Same as Table 1, this study.

incomes available in local banking markets and keen competitive forces from other institutions, do not provide a high level of deposits in many of the market areas.

The foregoing data must lead to the conclusion, substantiated by Table 7, that banking resources per person have been very low by national standards. Total banking resources have grown in dollar terms at an impressive rate during much of the period but per capita resources in South Carolina remain quite low. The absence of large money-center banks in the state reduces the average per capita, as well as the lower levels of personal income and the relatively large inroads of savings institutions in the savings markets of the state. In 1950, per capita bank resources in South Carolina were only 30 percent of the national level, 37 percent in 1970, and 36 percent in 1978. The underlying growth trend of deposits in South Carolina is not fully reflected in these data since a larger and larger portion of total banking resources in the nation in recent years have been directly borrowed funds from both national and foreign markets. There have been only limited amounts of this type of activity in the local banking industry.

These developments may be analyzed from another point of view from the data of Tables 8 and 9. In the 1950's and 1960's, total bank assets in the state amounted to 0.41 to 0.43 percent of the national total for most of the years; this share grew to around 0.50 in the early 1970's, and stood at 0.50 percent in 1979. Throughout the general period, bank asset growth has been somewhat above the national levels. Total bank assets in the United States advanced 120 percent between 1960 and 1970 and 147 percent between 1970 and 1979; the

TABLE 7

BANKING RESOURCES PER PERSON IN THE UNITED STATES AND SOUTH CAROLINA

July 1	United States	South Carolina	South Carolina Per Capita Resources as Percentage of United States
1950	$1,120	$ 340	30%
1955	1,370	410	30
1960	1,352	444	33
1966	1,986	668	34
1970	2,625	972	37
1973	3,701	1,462	40
1975	4,409	1,664	38
1978	5,625	2,045	36

Source: Computed from Bureau of Census and F.D.I.C. data.

TABLE 8

GROWTH OF TOTAL BANKING ASSETS IN THE
UNITED STATES AND SOUTH CAROLINA
(in millions of dollars)

Year (June 30)	United States	South Carolina	South Carolina as Percentage of United States
1950	$ 154,701	$ 665	0.43%
1955	207,925	845	0.41
1960	243,274	1,062	0.44
1962	277,211	1,201	0.43
1964	323,349	1,357	0.42
1966	388,373	1,685	0.43
1968	460,575	1,992	0.43
1970	534,932	2,524	0.47
1971	605,151	2,959	0.49
1972	673,016	3,388	0.50
1973	776,709	3,986	0.51
1974	891,956	4,538	0.51
1975	934,420	4,685	0.50
1976	972,794	4,849	0.50
1977	1,084,679	5,338	0.49
1978	1,226,598	5,968	0.49
1979*	1,318,763	6,595	0.50

*Preliminary.

Source: F.D.I.C., Assets, Liabilities of Commercial and Mutual Savings Banks, various dates. This will be referred to subsequently as F.D.I.C. Semiannual Report.

TABLE 9

TOTAL ASSETS OF INSURED COMMERCIAL BANKS
IN THE UNITED STATES AND SOUTH CAROLINA
(in thousands of dollars)

Year (June 30)	United States	South Carolina		
		National	State	Total
1950	$ 154,700,864	$ 421,205	$ 244,154	$ 665,359
1955	207,924,670	526,570	317,929	844,499
1960	243,273,551	663,133	398,411	1,061,544
1962	277,210,839	752,136	448,689	1,200,825
1964	323,348,848	855,204	502,110	1,357,314
1966	388,372,656	1,045,652	638,888	1,684,540
1968	460,574,990	1,200,601	791,359	1,991,960
1970	534,932,157	1,492,173	1,031,506	2,523,679
1971	605,150,667	1,719,180	1,240,312	2,959,492
1972	673,015,828	1,948,996	1,438,785	3,387,781
1973	776,709,125	2,239,434	1,746,433	3,985,867
1974	891,956,328	3,007,644	1,530,220	4,537,864
1975	934,419,996	2,560,168	2,124,998	4,685,166
1976	972,793,518	2,601,264	2,247,834	4,849,098
1977	1,084,679,218	2,864,751	2,472,743	5,337,494
1978	1,226,597,799	3,270,174	2,698,207	5,968,381
1979*	1,318,763,353	3,678,293	2,917,158	6,595,451
Percentage Increase				
1950-1960	57%	57%	63%	60%
1960-1970	120	125	159	138
1970-1979	147	147	183	161

*Preliminary.

Source: F.D.I.C. Semiannual Report.

comparable South Carolina percentages are 138 and 161. While these are not dramatic differences, they do matter and reflect well on the state's growth pattern.

One area of structural change that has had great significance in the national banking markets has had less influence in South Carolina; that is, the area of holding company banking. Holding company banks in South Carolina total only 6 organizations, and they held approximately 55 percent of total banking resources in 1978. This compares with holding company assets which approximate 75 percent at the national level. In addition, the banking holding companies operating in South Carolina are one-bank holding companies rather than multi-bank holding companies.

CHAPTER II

GROWTH AND CHANGE IN COMMERCIAL BANK ASSETS

Total assets of commercial banks in South Carolina increased almost ninefold in the 1950-1979 period, or from $665 million to $6.6 billion. In the United States, bank assets grew from $155 billion to $1,319 billion, or above a sevenfold increase. The rate of growth in the 1960's and early 1970's among South Carolina banks was considerably greater than in the nation as a whole. At other periods, the growth rates were about the same in the state and nation.

Table 9 consists of data on total bank assets for selected years since 1950. In this table, national and state-chartered banks are shown separately. While the growth rates have varied somewhat between the national and state banks, changes in bank charters and mergers distort year-to-year comparisons of the two groups and no effort will be made to analyze them separately in subsequent tables on assets and liabilities.

One way to look at the changing demand for bank services is to consider changes in the various categories of bank assets and liabilities. Certain categories may not shift according to customer demands, such as the cash and due from account, but shifts to consumer lending from business lending are indicative of fundamental market changes, as are shifts in the deposit structure.

Cash and Due from Banks

Both operating experience and regulatory requirements dictate that commercial banks maintain a high degree of liquidity in comparison

with other types of depository institutions. As holders of deposits payable upon demand and other liabilities of short term, banks are subject to massive inflows and outflows of funds which may not balance on a day-to-day basis. The cash and due from bank accounts provide the day-by-day liquidity required to meet the cash drainages that occur in banking. Other forms of assets and short-term borrowings provide additional liquidity from an operating standpoint.

Banks hold cash balances in the form of deposits with other banks, deposits with the Federal Reserve, and cash in vault. Cash items in process of collection from other banks are also included. Since these accounts do not provide operating income, bankers attempt to hold them to a minimum level consistent with needs and legal requirements. Although legal reserve requirements have tended to be somewhat lower for South Carolina banks than for banks in the United States, the cash accounts of banks in the state have often been equal to or above the national averages. As noted in Table 10, these accounts were particularly high in the 1950-1966 period, but have been comparable with or below the national average in more recent years.

It is difficult to understand why banks held such high levels of cash reserves in the 1950's. Certainly modern banking conditions have not permitted the luxury of maintaining cash accounts equal to one-fifth or more of total assets. In more recent years about one-eighth of bank assets are represented by the cash accounts. Thus one dollar out of eight dollars is still non-income producing causing bankers to continue to attempt to reduce this level of holdings. Considerations of monetary policy and the maintenance of bank safety and soundness remain the fundamental determinants of these accounts.

TABLE 10

CASH AND DUE FROM BANKS IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States (in thousands of dollars)	South Carolina (in thousands of dollars)	United States (percentage of total assets)	South Carolina (percentage of total assets)
1950	$ 32,905,533	$160,648	21.3%	24.1%
1955	41,382,190	189,726	20.6	22.5
1960	47,191,560	220,723	19.4	20.8
1962	48,844,006	219,972	17.6	18.3
1964	53,341,833	237,154	16.5	17.5
1966	60,186,603	292,988	15.5	17.4
1968	75,562,258	308,448	16.4	15.5
1970	85,909,632	373,848	16.1	14.8
1971	96,583,901	423,598	16.0	14.3
1972	100,094,937	474,537	14.9	14.0
1973	104,302,728	522,194	13.4	13.1
1974	127,217,155	614,202	14.3	13.5
1975	129,525,378	664,332	14.0	14.2
1976	129,303,516	551,079	13.3	11.4
1977	140,148,390	613,915	12.9	11.5
1978	168,152,079	729,315	13.7	12.2
1979*	178,336,650	791,351	13.5	12.0

*Preliminary.

Source: Same as Table 9, this study.

Obligations of United States Treasury and Federal Agencies

United States Treasury issues provide both income and liquidity to commercial banks. Since United States Treasury issues are traded in a very efficient and broadly-based market and involve no credit risk, they may be liquidated at any time. If the issues held are relatively short-term, such as one year or less, they may be sold without a serious market loss. Banks tend to combine short-term Treasury issues with such other market instruments as bankers acceptances and commercial paper to provide a secondary reserve for liquidity.

Both holdings of U.S. Treasury and Federal agency issues have declined precipitously in relative terms throughout much of the period. At both the national and state levels, combined holdings in 1950 accounted for about 40 percent of bank assets. By 1966, Treasury and agency issues constituted about 16 percent of bank assets at the national level and almost 19 percent in South Carolina. In 1979, the relevant percentages were 10 percent and 11 percent, respectively. (Consult Table 11 for more details of change.) In the 1970's, state chartered banks in South Carolina tended to hold more Treasury issues than the national banks. The development of other money market instruments and mechanisms for adjusting liquidity in the short term have no doubt reduced the reliance of banks upon Treasury issues as an investment. More importantly, perhaps, has been relative market yields and a generally strong loan demand throughout most of the 1960's and 1970's.

TABLE 11

UNITED STATES TREASURY AND GOVERNMENT AGENCY OBLIGATIONS
IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States (in thousands of dollars)	South Carolina (in thousands of dollars)	United States (percentage of total assets)	South Carol (percentage of total assets)
1950	$ 64,609,100	$266,648	41.8%	40.1%
1955	66,216,757	216,509	31.9	32.7
1960	57,659,295	281,410	23.7	26.5
1962	67,793,122	312,841	24.5	26.1
1964	62,994,327	303,952	19.5	22.4
1966	60,208,747	313,628	15.5	18.6
1968	68,002,154	366,149	14.8	18.4
1970	60,759,401	343,395	11.4	13.6
1971	73,646,308	355,338	12.2	12.0
1972	78,352,088	396,417	11.6	11.7
1973	79,993,391	398,516	10.3	10.0
1974	81,770,982	420,857	9.2	9.3
1975	98,641,358	577,647	10.5	12.3
1976	121,903,125	738,024	12.5	15.2
1977	133,348,946	706,170	12.3	13.2
1978	133,453,132	714,206	10.9	12.0
1979*	131,174,472	703,149	9.9	10.7

*Preliminary.

Source: Same as Table 9, this study.

Obligations of States and Political Subdivisions, and Other Securities

Within the securities portfolio itself there have been many other significant changes, particularly the substitution of tax-free municipal securities for taxable United States Treasury issues. Although banks may purchase certain other types of securities for holding, the great bulk of the investment portfolio is comprised of the obligations of either state and local governments, or Federal and Federal agency issues. As the banking system developed additional ways to acquire operating and short-term liquidity, such as the federal funds market and negotiable certificates of deposits, investment officers found it possible to expand their holdings of the less-liquid municipal issues.

The changing patterns of bank investment practice over the 1950-1979 period is set forth in Table 12. In the 1950's and early 1960's, banks held municipal issues amounting to 7 to 9 percent of total assets. In the 1971-1972 period, South Carolina banks had about 15 to 16 percent of their assets as municipal and other issues, somewhat above the 13 to 14 percent level for the nation. For the past few years, the proportion of bank assets held as municipal and other issues has been around 10 to 11 percent in the United States and 12 to 13 percent in South Carolina. This recent decline in relative terms has come about despite marked increases in the dollar levels of bank holdings of municipal and other securities, as shown by the dollar amounts in Table 12. The overall decline in bank investment portfolios in the state and the nation through the years is best seen through a combination of the percentages shown in Tables 11 and 12.

TABLE 12

STATE AND LOCAL GOVERNMENT, AND OTHER SECURITY HOLDINGS
IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States	South Carolina	United States	South Carolina
	(in thousands of dollars)		(percentage of total assets)	
1950	$ 10,988,638	$ 53,174	7.1%	8.0%
1955	17,981,710	76,285	8.7	9.0
1960	17,432,212	91,676	7.2	8.6
1962	24,719,886	111,344	8.9	9.3
1964	33,303,128	120,632	10.3	8.9
1966	42,291,644	164,100	10.9	9.7
1968	55,405,570	225,328	12.0	11.3
1970	63,962,426	317,272	12.0	12.6
1971	80,547,225	487,713	13.3	16.5
1972	90,815,062	508,023	13.5	15.0
1973	95,117,572	497,819	12.3	12.5
1974	102,647,363	557,841	11.5	12.3
1975	108,574,105	623,347	11.6	13.3
1976	111,036,037	651.441	11.4	13.4
1977	117,147,162	705,607	10.8	13.2
1978	124,557,915	735,622	10.2	12.3
1979*	143,078,306	882,412	10.8	13.4

*Preliminary.

Source: Same as Table 9, this study.

In June 1970, total investment securities of South Carolina banks were $661 million, of which $343 million were United States Treasury and agency securities, and $318 million were municipal and other issues. In June 1979, total investment securities held by South Carolina banks were $1,585 million, of which $703 were Treasury and agency issues, and $882 million were municipal and other issues. The great bulk of the Treasury issues held had maturities under 5 years with approximately 45 percent having maturities of 1 year or less. Municipal issues commonly run in the 5- to 10-year range, with 38 percent having maturities of less than 5 years. Thus the banks still tend to regard Treasury holdings as one source of liquidity. However, as loan demands continued to rise throughout much of the period under survey, the proportion of funds allocated to investment portfolios declined.

Total Loans of Banks in the United States and South Carolina

Commercial banks specialize in the extension of loans to businesses and individuals in many forms. Commercial and industrial loans are obvious examples, as are all types of individual and consumer credit transactions. Loans to other financial institutions and for purchasing or carrying securities are not major categories of lending by South Carolina banks and will not be discussed individually in this survey.

Bank lending in all of its forms provides the great bulk of bank revenue. Specialized lending services require many trained loan and credit officers for successful banking results, and their existence gives the banking industry a distinct advantage over other types of institutional lenders. At the same time, direct lending is an expensive service because of the relatively heavy individual involvement of loan

officers which is quite in contrast with the relative ease of managing an investment portfolio.

The low loan demands of the 1930's and 1940's were still reflected in the loan balances of banks in the 1950's. In 1950, as shown in Table 13, total bank loans as a percentage of total assets stood below 29 percent in the United States and below 27 percent in South Carolina. By 1960, these percentages were around 48 percent and 42 percent, respectively; and by the mid-60's, the loan-to-asset ratios had risen above 50 percent. Since about 1965, the loan-to-asset ratios have been above 50 percent in the United States and South Carolina. At several points in time, particularly in 1966, 1969, and 1973, many bankers felt under great pressure from their loan demands and had to curtail lending in various ways.

The historic measure of loan demand was in terms of loans as a percentage of deposits. Since deposits account for a smaller and smaller proportion of the bank's liabilities, the loan-to-deposit ratio rose to be much higher than the loan-to-asset ratio. This analysis employs the loan-to-asset ratio rather than the loan-to-deposit ratio. In addition, lending practices also vary greatly from bank to bank, as a result of such things as bank size, structure of deposit liabilities, overall customer profiles, and the state of the economy. South Carolina banks dramatically changed their lending practices and philosophies in the 1960's and 1970's, and, given the inherent differences in their market positions and customer profiles, they have accommodated to the national trends and pressures quite fully. Total loans in South Carolina jumped from only $179 million in mid-1950 to $450 million in 1960, to $1,288 million in 1970, to $3,475 million

TABLE 13

TOTAL LOANS AND DISCOUNTS (NET OF VALUATION RESERVES)
IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States (in thousands of dollars)	South Carolina (in thousands of dollars)	United States (percentage of total assets)	South Carolina (percentage of total assets)
1950	$ 44,379,303	$ 179,134	28.7%	26.9%
1955	79,260,278	291,875	38.1	34.6
1960	115,766,862	449,464	47.6	42.3
1962	129,778,873	536,399	46.8	44.7
1964	165,336,220	667,005	51.1	49.1
1966	214,385,874	875,074	55.2	51.9
1968	247,283,430	1,043,492	53.7	52.4
1970	282,083,563	1,288,227	52.7	51.0
1971	304,567,722	1,479,524	50.3	50.0
1972	347,557,000	1,761,554	51.6	52.0
1973	426,368,293	2,224,391	54.9	55.8
1974	490,826,189	2,465,002	55.0	54.3
1975	493,286,808	2,333,728	52.8	49.8
1976	503,165,012	2,458,656	51.7	50.7
1977	563,069,738	2,807,635	51.9	52.6
1978	656,132,585	3,204,375	53.5	53.7
1979*	720,900,294	3,474,596	54.7	52.7

*Preliminary.

Source: Same as Table 9, this study.

by mid-1979. It is to be expected that bank lending would rise dramatically in a growing state. Combined with relative declines in investment portfolios, high loan demands, rising incomes, and some degree of inflation, the growth in total lending by banks in South Carolina fits into a consistent pattern.

Several categories of loans are discussed separately in the following sections of this chapter. These categories of loans will be set forth as percentages of total loans rather than as percentages of total assets so that the reader may visualize the relative importance of each subcategory of lending.

Commercial and Industrial Loans

The traditional field of commercial bank lending has been as a supplier of funds to commerce and industry. In classical banking theory, the "proper" bank loan was a short-term, self-liquidating loan to a business firm or producer of real goods and business services. Although there have been many changes in recent decades, banks still emphasize lending to business, and the proportion of total bank loans going to commerce and industry has remained substantially the same at the national level over the 1950-1979 period. At the state level, the proportion has declined slightly, but it has never been as substantial as that of the nation.

Over the lengthy 1950-1979 period, total commercial and industrial loans in the United States jumped from a very low $17 billion in 1950, to $42 billion in 1960, to $109 billion in 1970, to $241 billion in 1979. From 1960 to 1970, this represented an increase of 160 percent; from 1970 to 1979, an increase of 120 percent. In South Carolina,

the respective increases amounted to a growth from $54 million in 1950 to $146 million in 1960, to $369 million in 1970, to $886 million in 1978. From 1960 to 1970, the percentage increase in South Carolina was 153 percent, and from 1970 to 1979, 152 percent. Thus, over the 1960-1979 period, commercial and industrial lending by South Carolina banks grew more rapidly than in the nation: 537 percent in South Carolina and 474 percent in the United States.

The data of Table 14 demonstrate that commercial and industrial loans as a percentage of all United States bank loans tended to run around 36 percent during the 1950-1979 period; in South Carolina, the percentage was more typically 30 percent or lower. The impressive growth in business and commerce in the state and the nation was financed in large measure from non-bank sources. The fact that commercial lending by South Carolina banks remains relatively low despite the state's spurt of industrialization may be explained by the fact that much of the industrial expansion has come through plant locations financed by national and world corporations. Plant and equipment expenditures are most often financed from retained earnings out of current operations, or from the proceeds of the sale of securities in the national markets. The periods when corporate borrowers are most anxious to expand their short-term bank borrowings tend to be periods of general credit scarcity. Hence, banks may not be able to expand business lending simply because there is a demand for credit at the moment.

Loans to Individuals

Commercial banks have been particularly active in the fields of consumer and installment lending in recent decades. Overall growth

TABLE 14

COMMERCIAL AND INDUSTRIAL LOANS IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States (in thousands of dollars)	South Carolina (in thousands of dollars)	United States (percentage of total loans)	South Carolina (percentage of total loans)
1950	$ 16,841,978	$ 54,247	38.0%	30.3%
1955	28,832,535	90,333	36.4	31.0
1960	41,986,347	145,720	36.3	32.4
1962	46,172,034	168,620	35.6	31.4
1964	55,414,938	194,957	33.5	29.2
1966	77,734,064	253,792	36.3	29.0
1968	91,944,657	315,915	37.2	30.3
1970	109,321,072	368,715	38.8	28.6
1971	115,340,405	433,035	37.9	29.3
1972	124,323,880	485,043	35.8	27.5
1973	151,650,726	655,766	35.6	29.5
1974	179,012,686	783,372	36.5	31.8
1975	180,917,102	673,694	36.7	28.9
1976	176,597,620	729,406	35.1	29.7
1977	194,653,208	808,154	34.6	28.8
1978	223,934,656	886,497	34.1	27.7
1979*	240,882,869	928,858	33.4	26.7

*Preliminary.

Source: Same as Table 9, this study.

in consumer borrowing provided much of the motivation to bankers as they realized that loans to individuals for personal expenditures was a profitable market for entry and expansion. The growth in South Carolina banking in these fields has been particularly noteworthy, as may be seen from the data of Table 15. From a very low level of $49 million in 1950, South Carolina bank loans to individuals grew to $146 million by 1960, to $539 million by 1970, to $1,650 million by 1979. While the national pattern of growth in personal lending by banks is also impressive, it does not compare with developments in South Carolina.

Throughout the entire 1950-1979 period, the proportion of loans to individuals to total bank loans has been much higher in South Carolina than in the United States. The national percentage ranged around the 21 to 24 percent level; in South Carolina, the percentage started at 27 in 1950, was above 36 percent in the mid-60's, and reached 47 percent in 1979. Thus it is obvious that the general category of personal and consumer lending is the largest loan category for South Carolina banks and remains one of the major categories of lending for all United States banks.

Loans to individuals take many forms and provide financing for many purposes and functions. Automobile financing accounts for the largest category of loans to individuals. Single-payment loans to individuals, credit card transactions, and many other transactions are involved. The overall share of commercial banking in the installment credit field may to noted from the fact that in 1950, banks provided 40 percent of the nation's installment credit. In more

TABLE 15

INDIVIDUAL LOANS FOR PERSONAL EXPENDITURES
IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States (in thousands of dollars)	South Carolina (in thousands of dollars)	United States (percentage of total loans)	South Carolina (percentage of total loans)
1950	$ 9,049,763	$ 49,091	20.4%	27.4%
1955	16,333,245	95,386	20.6	32.7
1960	25,632,640	144,590	22.1	32.2
1962	29,562,319	175,725	22.8	32.8
1964	37,773,811	244,327	22.9	36.6
1966	47,928,186	315,354	22.4	36.1
1968	54,490,953	403,733	22.0	38.7
1970	64,574,674	538,815	22.9	41.8
1971	69,691,394	599,236	22.9	40.5
1972	80,916,934	740,377	23.3	42.0
1973	95,244,260	867,780	22.3	39.0
1974	103,454,759	935,292	21.1	37.9
1975	102,640,379	933,016	20.8	40.0
1976	111,269,691	1,022,346	22.1	41.6
1977	128,729,693	1,243,235	22.9	44.3
1978	154,829,544	1,485,370	23.6	46.4
1979*	178,644,917	1,650,019	24.7	47.5

*Preliminary.

Source: Same as Table 9, this study.

recent years, this percentage has grown to about 49, while the finance company's market share has been declining from 39 percent to 20 percent. Credit unions and commercial banks have been the major gainers in the competitive race for installment credit.

The growth of certain categories of consumer lending in South Carolina may be noted from Table 16. Automobile installment credit held by banks was at a very low $13 million level in 1950; by 1970, automobile installment paper was about $200 million; and by 1979, such paper holdings stood at $760 million. Thus car financing represented 46 percent of total personal and consumer credit extended by banks in 1979. Single-payment loans to individuals have also advanced rapidly throughout the period, rising from $43 million in 1960, to $136 million in 1970, to $301 million in 1979.

Data on retail credit card plans are available for recent years. In 1970, for example, South Carolina banks reported retail credit card credits in the amount of $36 million. In 1979, such credit outstanding was $182 million, as it continues to rise each year. The level of retail sales transacted by means of credit cards is far greater than the level of bank credit outstanding, since many transactions are paid prior to the creation of a formal credit.

Real Estate Loans

Real estate loans extended by commercial banks include financing for single- and multi-family residential properties, both conventional and FHA-insured, construction and development loans, farm land, and nonresidential properties. Most of these loans are long-term in nature, based upon urban properties, and tend to be illiquid in nature.

TABLE 16

CERTAIN CATEGORIES OF CONSUNER LOANS OF ALL INSURED COMMERCIAL BANKS IN SOUTH CAROLINA

(in thousands of dollars)

Year (June 30)	Automobile Installment	Single Payment
1950	$ 13,032	$ 23,412
1955	28,609	37,662
1960	56,426	42,765
1962	67,378	54,986
1964	98,362	72,934
1966	133,592	92,305
1968	161,056	110,206
1970	199,754	135,841
1971	227,039	142,707
1972	297,615	172,624
1973	358,229	179,105
1974	361,842	207,851
1975	326,481	245,241
1976	413,136	243,340
1977	545,647	284,630
1978	696,328	293,806
1979*	760,097	301,021

*Preliminary.

Source: Same as Table 9, this study.

Banks are limited by regulations as to their degree of participation in mortgage financing in large measure because of both risk and liquidity considerations. At the national level, total real estate lending is the second largest general category of bank lending; in South Carolina, such lending ranks third in dollar volume.

Real estate loans of all United States banks grew from $12 billion in 1950, to $28 billion in 1960, to $71 billion in 1970, to $228 billion in 1979. In South Carolina, as shown in Table 17, total real estate loans were $49 million in 1950, $100 million in 1960, $253 million in 1970, and $910 million in 1979. For the more recent period, real estate lending expanded 220 percent in the United States between 1970 and 1979, and 260 percent in South Carolina. State-chartered banks in South Carolina have traditionally maintained a heavier commitment to real estate than have the national banks. Differing regulations, differing customers, and community factors explain much of the differential in the level of mortgage activity by the two groups of banks in the state.

From Table 17 it may be noted that total real estate loans amounted to 27.7 percent of total bank loans in the United States in 1950; by 1960, the percentage was 24.6 percent, by 1970, 25.3 percent, and by 1979, 31.7 percent. The South Carolina percentages remained somewhat lower throughout the period, standing at 22.2 percent in 1960, 19.6 percent in 1970, and rising to 26.2 percent in 1979. The state trends in real estate lending by banks have been relatively close to the national movements in the 1970's.

Residential financing by banks continues to be rather important in the total bank picture of real estate lending, although to a somewhat

TABLE 17

TOTAL REAL ESTATE LOANS IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States (in thousands of dollars)	South Carolina (in thousands of dollars)	United States (percentage of total loans)	South Carolina (percentage of total loans)
1950	$ 12,291,683	$ 48,901	27.7%	27.3%
1955	23,499,422	66,133	29.7	22.7
1960	28,438,706	99,611	24.6	22.2
1962	32,194,124	109,347	24.8	20.4
1964	41,648,224	137,793	25.2	20.7
1966	52,306,219	170,887	24.4	19.5
1968	61,966,654	203,243	25.1	19.5
1970	71,291,260	252,561	25.3	19.6
1971	76,639,497	299,125	25.2	20.2
1972	90,121,410	394,129	25.9	22.4
1973	109,113,612	529,162	25.6	23.8
1974	127,320,100	626,950	26.0	25.4
1975	133,014,751	608,033	27.0	26.1
1976	143,699,265	662,362	28.6	26.9
1977	163,007,362	720,500	28.9	25.7
1978	194,466,559	824,931	29.6	25.7
1979*	228,387,694	910,060	31.7	26.2

*Preliminary.

Source: Same as Table 9, this study.

lesser extent in South Carolina than in the United States. As shown in Table 18, residential loans account for above 10 percent of total bank loans in South Carolina and above 18 percent of United States bank loans. One factor that has impacted upon the lower relative level in South Carolina has been the strong position of the savings and loan industry in the state. It is likely that in the future, commercial banks will assume an even more prominent role in overall home financing in South Carolina. As of mid-1979, residential loans totaled $133 billion in the United States and $369 million in South Carolina. Many banks in South Carolina were slow to develop home mortgage departments, and they did not become particularly active until the late 1960's and early 1970's. With the development of more and more sources of funds and with certain institutional changes in the home mortgage markets in the future, the prospects are that banks will take a more aggressive posture in the residential mortgage markets.

Loans to Farmers

Commercial banks do provide financing for farmland. In 1979, for example, South Carolina banks held $47 million in loans secured by farmland, up from $28 million in 1970. As in the case of production credit, farmers obtain financing from non-bank sources for land acquisition.

Although banks provide a large volume of credit to the agricultural interests of the state and the nation, the actual dollar level of bank financing of farm operations is not as extensive as most observers appear to believe. This is particularly true in South Carolina since so many of its residents still think of that state as being

TABLE 18

REAL ESTATE LOANS SECURED BY RESIDENTIAL PROPERTIES
IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States (in thousands of dollars)	South Carolina (in thousands of dollars)	United States (percentage of total loans)	South Carolina (percentage of total loans)
1950	$ 9,343,589	$ 30,765	21.1%	17.2%
1955	14,957,477	36,745	18.9	12.6
1960	20,332,867	51,014	17.6	11.4
1962	22,049,075	55,628	17.0	10.4
1964	27,750,185	68,133	16.8	10.2
1966	33,800,109	85,362	15.8	9.8
1968	39,112,891	93,359	15.8	9.0
1970	44,844,789	116,364	15.9	9.0
1971	48,163,010	141,164	15.8	9.5
1972	56,781,350	167,247	16.3	9.5
1973	68,649,776	236,446	16.1	10.6
1974	79,565,768	291,526	16.2	11.8
1975	82,164,672	280,904	16.7	12.0
1976	81,108,188	247,534	16.1	10.1
1977	92,356,196	274,525	16.4	9.8
1978	111,321,321	327,862	17.0	10.2
1979*	133,351,815	369,110	18.5	10.6

*Preliminary.

Source: Same as Table 9, this study.

heavily agricultural in nature. Such, however, has not been the case since the 1940's. Farmers have many non-bank sources of financing, including government-related agencies, and they do not, in the aggregate, borrow large amounts from banks. As shown by the data of Table 19, regular agricultural loans grew from $2.4 billion in the United States in 1950, to $11.2 billion in 1970, to $29.8 billion in 1979; in South Carolina, the totals moved from $16 million in 1950, to $45 million in 1970, to $98 million in 1979. As a proportion of total bank lending at the time, these numbers are not very large.

Throughout most of the 1950-1979 period, regular farm loans comprised from 4 to 5 percent of total bank loans in the United States; in South Carolina, the relevant percentages fell from above the 5 percent level in the 1950's and early 1960's to around 3 percent in the 1970's. As a generalization, state banks in South Carolina are commonly more involved in farm lending than are the national banks, due to their customer and community base. As primary agricultural production assumes a larger role in the national economy and as farms become more established as operating businesses, it is likely that direct bank lending to farmers will rise in the future.

Bank Premises and Miscellaneous Assets

There are various other forms of financing available through banks which are not listed in this chapter. For example, in 1979, South Carolina banks had $25 million in loans outstanding to financial institutions, $460 million in federal funds sold and securities purchased under agreements to resell, $61 million as an "all other loan" category, and $16 million in direct lease financing receivables.

TABLE 19

BANK LOANS TO FARMERS (EXCLUDING REAL ESTATE)
IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States (in thousands of dollars)	South Carolina (in thousands of dollars)	United States (percentage of total loans)	South Carolina (percentage of total loans)
1950	$ 2,356,895	$16,263	5.3%	9.1%
1955	3,464,296	21,306	4.4	7.3
1960	5,242,238	24,800	4.5	5.5
1962	5,933,538	27,755	4.6	5.2
1964	7,333,666	32,466	4.4	4.9
1966	8,501,090	34,326	4.0	3.9
1968	10,005,735	40,418	4.0	3.9
1970	11,232,503	44,853	4.0	3.5
1971	12,250,357	43,259	4.0	2.9
1972	13,625,908	51,981	3.9	3.0
1973	15,990,737	58,462	3.8	2.6
1974	18,454,811	63,617	3.8	2.6
1975	19,078,087	67,818	3.9	2.9
1976	22,185,324	77,663	4.4	3.2
1977	25,776,937	94,763	4.6	3.4
1978	27,063,534	86,910	4.1	2.7
1979*	29,789,122	98,174	4.1	2.8

*Preliminary.

Source: Same as Table 9, this study.

All of these activities have expanded greatly in the period under survey but are not discussed separately in this study.

This brief section summarizes the growth in bank premises and equipment, real estate owned, and "other assets." Table 20 sets forth the dollar growth in these categories for the 1950-1979 period. The growth in the value of bank premises and equipment utilized by the industry is only partially shown by these data since many banks have turned to leasing arrangements for both buildings and equipment. Banks are reluctant to tie up a large portion of their capital in real estate and permanent fixtures. Of the total of $267 million reported by South Carolina banks in 1979 as bank premises and other assets, some $166 million is listed as bank premises and equipment of some type. These are large sums of money but they are only a fraction of the market value of plant and equipment actually employed in the state's banking industry. In the United States, bank plant and equipment owned by all banks was approximately $21 billion in 1979.

The bank premises and miscellaneous assets categories are commonly non-income producing assets, along with the cash and due accounts. In South Carolina, for example, the cash and due from accounts are about 12 percent of assets and the bank premises and miscellaneous assets are about 4 percent of total assets. Thus, some 15 to 16 percent of bank assets in the state do not produce regular income for the bank, and this fact contributes to the pressure on bank earnings.

TABLE 20

BANK PREMISES AND MISCELLANEOUS ASSETS
IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States	South Carolina
	(in thousands of dollars)	
1950	$ 1,818,290	$ 5,755
1955	2,918,981	10,104
1960	5,354,183	18,296
1962	6,945,178	22,060
1964	8,742,327	29,889
1966	11,299,788	38,750
1968	14,321,578	48,543
1970	21,965,868	72,152
1971	23,877,988	90,432
1972	25,821,457	100,267
1973	31,541,843	128,065
1974	40,030,513	160,328
1975	52,118,122	179,839
1976	60,663,484	207,257
1977	74,130,433	225,251
1978	81,878,821	245,686
1979*	84,262,489	267,482

*Preliminary.

Source: Same as Table 9, this study.

CHAPTER III

CHANGES IN SOURCES OF FUNDS: DEPOSITS, OTHER LIABILITIES, AND CAPITAL ACCOUNTS

The growth of bank assets set forth in Chapter II was made possible by funds provided through the expansion of bank liabilities in the form of deposits, other liabilities, and capital accounts. This chapter will summarize some of these changes throughout the 1950-1979 period. Changes in the sources of funds of banks were as great, if not greater, than changes in the uses of bank funds. Fundamental changes in the banking system occurred in all phases of its operations.

Demand, Savings, and Time Deposits

Deposits constitute the basic source of funds for banks. In addition to the rather dramatic expansion of total deposits there were fundamental changes in the nature of bank deposit liabilities over the period. Moving from a period in the 1950's when, in large measure, deposits were held as demand deposits, to a point when the majority of deposit dollars are in the form of savings and time deposits has caused many fundamental changes in banking operations. Aggressive competition for funds with a higher cost of funds obtained has marked the banking system in the past decade.

Total deposits in the United States banking system grew from $142 billion in 1950 to $214 billion in 1960, to $437 billion in 1970, to $1,012 billion in 1979. Comparable numbers for South Carolina banks are $619 million in 1950, $940 million in 1960, $2,184 million

in 1970, and $5,417 million in 1979. In terms of percentage changes, total United States deposits advanced 51 percent between 1950 and 1960, 104 percent between 1960 and 1970, and 132 percent between 1970 and 1979. Comparable growth in South Carolina was 52 percent for the 1950-1960 period, 132 percent for the 1960-1970 period, and 148 percent between 1970 and 1979. Thus in all three sub-periods, total bank deposits in South Carolina advanced more rapidly than in the United States. The growth rates for demand deposits in South Carolina have been even more favorable than for total deposits. For example, between 1970 and 1979, demand deposits in South Carolina banks increased 95 percent, while in the United States demand deposits rose only 68 percent. For the same period, time and savings deposits increased 248 percent in South Carolina and 201 percent in the United States. These and other comparisons may be made from the data of Table 21.

In 1950, demand deposits accounted for 74 percent of United States bank deposits and 86 percent of South Carolina bank deposits. (See Tables 22 and 23 for more details of the changing composition of deposits.) By 1960, checking account dollars still represented 68 percent of United States deposits and 79 percent of South Carolina deposits. By 1970, the decline in relative importance of demand deposits had been very significant, falling to a 52 percent share in the United States and a 66 percent share in South Carolina. The precipitous decline in demand deposits as a source of funds has continued to the present. In 1979, demand deposits accounted for only 38 percent of United States bank deposits and 52 percent of South Carolina bank deposits. The continued relative strength of demand deposits in the

TABLE 21

TOTAL DEMAND, TIME, AND SAVINGS DEPOSITS OF COMMERCIAL BANKS
IN THE UNITED STATES AND SOUTH CAROLINA
(in thousands of dollars)

Year (June 30)	United States			South Carolina		
	Demand	Time and Savings	Total	Demand	Time and Savings	Total
1950	$105,253,886	$ 36,738,467	$ 141,992,353	$ 530,069	$ 88,890	$ 618,959
1955	132,077,973	57,162,963	189,180,936	656,055	117,359	773,414
1960	145,538,140	68,887,308	214,425,448	742,542	197,773	940,315
1962	152,117,270	92,500,555	244,617,825	827,506	229,939	1,057,445
1964	165,203,732	120,928,965	286,132,697	921,453	271,716	1,193,169
1966	182,496,501	158,101,539	340,598,040	1,112,502	369,849	1,482,351
1968	204,207,130	193,067,686	397,274,816	1,207,435	544,518	1,751,953
1970	228,438,234	208,211,753	436,649,987	1,429,535	754,380	2,183,915
1971	247,872,480	259,586,812	507,459,292	1,600,151	940,817	2,540,968
1972	258,189,554	299,015,330	557,204,884	1,738,034	1,134,147	2,872,181
1973	279,908,714	354,510,405	634,419,119	1,988,280	1,359,883	3,348,163
1974	304,476,449	411,038,184	715,514,633	2,108,049	1,639,669	3,747,718
1975	311,342,113	449,081,130	760,423,243	2,202,747	1,738,523	3,941,270
1976	312,957,748	482,027,916	794,985,664	2,229,478	1,948,321	4,177,799
1977	339,256,134	529,979,352	869,235,486	2,363,333	2,194,358	4,557,691
1978	376,950,992	596,825,451	973,776,443	2,678,947	2,402,391	5,081,338
1979*	384,305,691	627,222,092	1,011,527,783	2,788,197	2,628,447	5,416,644

*Preliminary.

Source: Same as Table 9, this study.

TABLE 22

DEMAND, TIME, AND SAVINGS DEPOSITS OF COMMERCIAL BANKS AS A PERCENTAGE OF TOTAL DEPOSITS IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States		South Carolina	
	Demand	Time and Savings	Demand	Time and Savings
1950	74%	26%	86%	14%
1955	70	30	85	15
1960	68	32	79	21
1962	62	38	78	22
1964	58	42	77	23
1966	54	46	75	25
1968	51	49	69	31
1970	52	48	66	34
1971	49	51	63	37
1972	46	54	60	40
1973	44	56	59	41
1974	43	57	56	44
1975	41	59	56	44
1976	39	61	53	47
1977	39	61	52	48
1978	39	61	53	47
1979*	38	62	52	48

*Preliminary.

Source: Computed from Table 21, this study.

TABLE 23

DEPOSITS OF FEDERAL AND MUNICIPAL GOVERNMENTS
IN SOUTH CAROLINA BANKS

(in thousands of dollars)

Year (June 30)	United States Government	State and Local Government	Total
1950	$13,965	$ 65,368	$ 79,333
1955	30,849	91,048	121,897
1960	33,128	100,545	133,673
1962	47,697	123,692	171,389
1964	51,920	124,511	176,431
1966	53,444	146,703	200,147
1968	40,999	159,773	200,772
1970	52,656	205,797	258,453
1971	44,533	246,732	291,265
1972	76,885	244,413	321,298
1973	82,834	289,106	371,940
1974	64,365	350,175	414,540
1975	30,565	333,771	364,336
1976	35,538	335,975	371,513
1977	26,651	371,320	397,971
1978	59,091	423,712	482,803
1979*	16,297	425,014	441,311

*Preliminary.

Source: Same as Table 9, this study.

state's banking system remains noteworthy. It follows, of course, that as total demand deposits have declined in relative importance, the importance of savings and time deposits has risen. Thus, as of mid-1979, time and savings deposits accounted for 62 percent of total United States bank deposits and 48 percent of South Carolina bank deposits. While the differential remains in the deposit structures of the United States and South Carolina, the rising trend of time and savings continues and is likely to do so for many years.

The development of the certificate of deposit and such investment instruments as money market certificates has made it possible for the banking system to compete for the public's savings dollars. Banks began to realize in the 1960's that they must reward the saver, both individual and corporate, with a more reasonable interest return on savings. Various plans and procedures were developed to keep the banks competitive as interest rates rose in general and the time value of money increased. Corporate treasurers, and later households as well, sought other savings and investment means, with the result that the banking system had to respond. Inflationary pressures of the past decade have accentuated the problem, and banks have little choice but to provide payment for deposit dollars.

In 1970, South Carolina banks held, as a part of their time and savings deposits for individuals, partnerships, and corporations, 49 percent as savings deposits and 51 percent as time deposits in some form. In 1979, South Carolina banks had 47 percent of individual, partnership, and corporation time savings deposits as regular savings deposits and 53 percent as time deposits. On the other hand, in United States banking in 1970, 52 percent of total time and savings

deposits for individuals, partnerships, and corporations were savings deposits and 48 percent were time deposits. By 1979, in the United States, only 40 percent were in various savings plans while 60 percent were in time accounts of one form or another. Thus the traditional savings account with no fixed maturity is losing its relative importance in the market. Interest rate limitations imposed by Regulation Q is one reason for the changing structure of time and savings accounts.

Deposits of Governmental Units

Deposits of local, state, and Federal units of government are quite significant in the overall deposit structure of South Carolina banks. As may be calculated from the data of Table 23, total deposits of government units ran about 11 percent of total bank deposits in South Carolina for much of the period. In 1979, government deposits amounted to slightly above 8 percent of total bank deposits. In general, the trend has been for the Federal deposits to grow at a much lower rate than the state and local deposits and to decline in recent years. In 1960, for example, Federal deposits comprised 25 percent of total public deposits; in 1979, Federal deposits were only 4 percent of public deposits in South Carolina banks.

Almost all of the Federal deposits have been held as demand deposits, while in recent years at least a substantial portion of state and local deposits have been held as time and savings accounts. Federal deposits have grown less popular with banks as additional limitations and costs have been imposed upon repository institutions. Treasury funds are now either remitted after one day or credited to a note account bearing interest. Although bankers compete aggressively for the

state and local unit accounts, they do carry with them the disadvantage of requiring the pledging of securities against these deposits. In essence, as public deposits rise, the day-to-day liquidity of the investment portfolio is restricted since a significant portion may be pledged against the public deposits.

Deposits of Other Banks with South Carolina Banks

Commercial banks maintain sizable balances with other banks for purposes of clearing and collecting checks, handling security transactions, obtaining funds, establishing loan participations, fulfilling legal reserve requirements, and many other specialized financial services. Smaller banks, and even large regional banks, find it essential to have immediate access to the money center banks to provide a wide range of customer services. Almost all of these correspondent balances are held as demand deposits and are rather unstable in terms of overall liquidity management.

Few South Carolina banks hold sizable balances for other banks in the state or region. Both the larger and smaller banks of South Carolina have tended to hold their out-of-town bank balances in money center banks outside of the state. The historic structure of the nation's financial markets and the Federal Reserve System, and the transportation network and patterns of business relationships, have tended to retard correspondent banking relationships in South Carolina. The Federal Reserve Regional Check Processing Center in Columbia is boosting the chances of several of the larger banks to attract a more substantial portion of the interbank deposits in South Carolina. So far, the advances have been rather modest.

Interbank deposits in South Carolina banks have grown from $16 million in 1950, to $36 million in 1970, to $56 million in 1979, as shown in Table 24. As a percentage of total deposits, interbank deposits declined from 2.7 percent in the 1950's to about 1.6 percent in 1970, and now stands at about 1.0 percent of total deposits. In the United States, comparable percentages are much higher, ranging around 6 percent in 1970 and in 1979. High yields in the money market and alternative means of effecting liquidity adjustments have combined to reduce correspondent balances in the banking system. South Carolina banks are still confronted with many hurdles if they are to build up substantially their holdings of interbank balances. Significant progress in this field of competition for funds takes many years of sustained efforts by the interested banks.

Nondeposit Miscellaneous Liabilities

Banking has moved away somewhat from its earlier reliance upon deposits as a source of funds as it has moved toward a more aggressive posture of competition for funds in many market areas. This shift has occurred at the national level to a far greater extent than in South Carolina.

Included in the miscellaneous liability category is the money borrowed through the federal funds market. Banks sell federal funds as well as buy federal funds, but the two amounts are not equal. As of June 30, 1970, federal funds sold and securities purchased under agreement to resell in the United States totaled $10.9 billion, while federal funds sold and securities sold under repurchase agreements were $15.6 billion. In 1979, the comparable figures mushroomed to $52 billion and $112 billion. In South Carolina, the 1970 data were

TABLE 24

DEPOSITS OF OTHER BANKS IN SOUTH CAROLINA BANKS

Year (June 30)	Total	Other Bank Deposits as a Percentage of Total Deposits in South Carolina Banks
1950	$16,406	2.7%
1955	21,231	2.7
1960	27,630	2.9
1962	27,749	2.6
1964	28,507	2.4
1966	33,876	2.3
1968	35,948	2.1
1970	35,783	1.6
1971	39,724	1.6
1972	36,992	1.3
1973	36,944	1.1
1974	42,618	1.1
1975	48,047	1.2
1976	40,063	1.0
1977	34,868	0.8
1978	48,380	1.0
1979*	55,992	1.0

*Preliminary.

Source: Same as Table 9, this study.

$92 million sold and $8 million purchased; in 1979, the South Carolina totals were $460 million sold and $406 million purchased. These relationships indicate the general tendency of smaller banks to be relatively aggressive sellers of federal funds rather than buyers of funds.

In 1970 in the United States, total miscellaneous liabilities of $48 billion, including federal funds purchased, amounted to about 9 percent of total bank resources; in 1979, the total miscellaneous liabilities of $206 billion amounted to 15 percent of bank resources. In South Carolina, on the other hand, total miscellaneous liabilities were $95.8 million in 1970, or 4 percent of bank assets; in 1979, total miscellaneous liabilities of $615 million amounted to 9 percent of bank assets. Thus South Carolina banks have moved somewhat toward the use of nondeposit funds but not nearly so far as have banks in the United States.

Growth in Bank Capital Accounts

The total capital structure of banks in the United States in 1950 was equal to 7.2 percent of total bank assets and in South Carolina, the comparable number was 6.5 percent. These capital-asset ratios were low by historic standards as a result of the rapid growth of bank assets in World War II when banks purchased large amounts of Federal securities. Bank capital had not been able to keep pace with bank growth patterns in the 1940's and early 1950's. As shown in Table 25, by 1960, the capital-asset ratio stood at 8.4 percent in the United States and 8.9 percent in South Carolina. Banking growth continued at such rates during most of the 1960's and 1970's that the capital-asset ratio declined for much of the period since bank capital did not

TABLE 25

TOTAL CAPITAL STRUCTURE AS A PERCENTAGE OF TOTAL ASSETS OF COMMERCIAL BANKS IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States	South Carolina
1950	7.2%	6.5%
1955	7.4	7.8
1960	8.4	8.9
1962	8.4	9.3
1964	8.3	9.5
1966	8.1	8.9
1968	7.8	8.8
1970	7.9	8.5
1971	7.6	8.3
1972	7.5	8.1
1973	7.3	7.8
1974	7.0	7.8
1975	6.9	8.3
1976	7.2	8.3
1977	7.1	8.0
1978	6.9	7.8
1979*	7.4	8.4

*Preliminary.

Source: Same as Table 9, this study.

grow at the same rates. Throughout the period, South Carolina banks continued to be more heavily capitalized than banks in general in the United States. In 1970, the United States capital to asset relationship was 7.9 percent and the South Carolina percentage was 8.5 percent. In 1979, the United States percentage was 7.4 while the South Carolina percentage was 8.4. Large holding-company banking in the nation's money centers have much lower capital-asset ratios than do other banks in general. South Carolina's banking structure, both in size and tradition, has resulted in a rather conservative approach to the question of maintaining adequate capital.

Bank supervisory agencies have remained concerned over the level of bank capital, particularly in recent years. Since the primary purpose of bank capital is to provide funds to cover any unusual operating losses of the bank, some level of "capital adequacy" is always under consideration by the supervisory authorities. Bank stockholders may desire lower capital to asset ratios as a means of increasing profits on stockholder investment. One measure taken in the 1960's to improve stockholder returns while maintaining a larger base for depositor protection was the authorization that allows banks to issue limited amounts of subordinated capital notes and debentures. Such issues stand in an intermediate position between the bank depositor and the bank stockholder in their financial claims in case of dissolution.

Table 26 consists of data on the amounts and relative size of subordinated notes and debentures outstanding in the state and the nation for the 1969-1979 period. In 1969, these issues outstanding were about $2 billion in the United States and only $3.5 million in South Carolina,

TABLE 26

SUBORDINATED NOTES AND DEBENTURES AS A PART OF BANK CAPITAL STRUCTURE IN THE UNITED STATES AND SOUTH CAROLINA

Year (June 30)	United States		South Carolina	
	Subordinated Notes and Debentures	Percentage of Equity Capital	Subordinated Notes and Debentures	Percentage of Equity Capital
	($000,000)		($000,000)	
1969	$1,970	5.4%	$ 3.5	1.8%
1970	2,052	5.2	3.6	1.7
1971	2,564	6.1	9.6	4.1
1972	3,570	7.7	10.4	4.0
1973	3,905	7.6	12.2	4.1
1974	4,203	7.4	20.8	6.2
1975	4,287	7.0	18.5	5.0
1976	4,837	7.0	21.5	5.0
1977	5,330	7.1	33.3	7.8
1978	5,753	6.9	32.9	7.0
1979*	5,931	6.4	38.9	7.5

*Preliminary.

Source: Derived from F.D.I.C. Semiannual Report.

or 5.4 percent of bank equity capital in the United States and 1.8 percent of equity capital in South Carolina. As of mid-1979, capital notes and debentures totaled $5.9 billion in the United States and $38.9 million in South Carolina, or 6.4 percent and 7.5 percent of equity capital, respectively. Thus, in recent years, the use of bank capital notes and debentures by South Carolina banks has paralleled national usage fairly closely. Most observers anticipate a continued growth in such issues as banks attempt to maintain a favorable rate of return to their stockholders.

The growth in bank capital in South Carolina is shown in Table 27. From a total capital structure of $43 million in 1950, bank capital grew to $95 million in 1960, to $215 million in 1970, to $555 million in 1979. Capital growth occurred largely through profit retention rather than through stock sales or debenture issues. Combined capital stock, and later, notes and debentures, grew from $15 million in 1950 to $159 million in 1979, while the combined surplus, undivided profits, and reserve accounts jumped from $28 million in 1950 to $397 million in 1979. If the banking system is to continue to grow to meet the financial needs of the nation, the operating earnings of the banking system must enable bank managements to set aside funds in their capital accounts. More and more bank analysts look at the profit stream of banks to detect the vitality and financial strength of banks rather than to their ratios of capital accounts.

TABLE 27

CAPITAL STRUCTURE OF SOUTH CAROLINA BANKS
(in thousands of dollars)

Year (June 30)	Total Capital Structure	Capital Stock, Notes, & Debentures	Surplus, Reserves, & Undivided Profits
1950	$ 43,443	$ 15,284	$ 28,159
1955	65,834	21,798	44,036
1960	94,667	29,589	65,078
1962	111,765	35,368	75,397
1964	128,953	39,073	89,880
1966	149,934	45,799	104,135
1968	175,822	55,097	120,725
1970	215,408	68,836	146,572
1972	273,542	90,821	182,721
1974	353,231	119,548	233,683
1975	388,154	120,212	267,942
1976	422,603	124,797	297,806
1977	462,143	140,440	321,703
1978	500,058	142,406	357,652
1979*	555,519	158,654	396,865

*Preliminary.

Source: Same as Table 9, this study.

CHAPTER IV

INCOME, PROFIT, AND EMPLOYMENT IN SOUTH CAROLINA BANKS

Commercial banking is a service industry that operates as a part of the enterprise society with stockholders and investors. Capital cannot be attracted to the banking industry unless it has realistic profits with reasonable expectations for future profits. The heavy emphasis that public authorities place upon banks to maintain and improve their capital structures can be realized only if banks are allowed to earn profits sufficient to permit significant profit retention. Retained earnings have accounted for nearly three-fourths of additions to bank capital over the years. With the rapid growth in bank assets through a combination of real growth and inflationary forces it is obvious that banks must attract and retain large amounts of investor capital. Bank profitability is the only solution within the market economy.

Operating Income, Expenses, and Profitability of South Carolina Banks

The data of preceding chapters have indicated that banks have reduced their reliance upon investment portfolios while expanding their loan portfolios throughout most of the period. This trend is reflected by the data of Table 28 from which it may be noted that interest earnings from securities as a percentage of operating revenue declined from the 1950's through most of the 1970's. In 1950, for example, interest on securities accounted for 31.6 percent of operating revenue in the United States and 28.4 percent in South Carolina.

TABLE 28

INTEREST ON SECURITIES AND INTEREST AND DISCOUNT ON LOANS AS PERCENTAGES OF CURRENT OPERATING REVENUE OF INSURED BANKS IN THE UNITED STATES AND SOUTH CAROLINA

Calendar Year	Interest on All Securities		Interest on All Loans*	
	United States Banks	South Carolina Banks	United States Banks	South Carolina Banks
1950	31.6%	28.4%	50.3%	50.5%
1955	26.4	26.5	56.8	54.9
1960	22.1	25.7	65.2	57.3
1962	23.3	25.1	62.0	58.6
1964	22.1	22.9	64.0	61.9
1966	19.7	21.7	66.9	63.9
1968	21.1	21.8	65.6	64.3
1970	18.8	20.8	66.2	64.2
1972	20.7	19.4	63.7	65.6
1973	17.3	16.2	56.7	67.4
1974	15.2	15.2	69.2	66.0
1975	18.4	19.9	65.2	63.2
1976	17.8	21.8	64.0	62.0
1977	19.6	19.7	65.3	63.4
1978	15.5	17.2	67.1	64.7

*Excludes income from federal funds sold.

Source: Calculated from F.D.I.C. Annual and Semiannual Reports.

By 1970, the relevant percentages were 18.8 for the United States and 20.8 for South Carolina banks. For 1978, interest on securities represented 15.5 percent and 17.2 percent of bank operating revenue in the United States and South Carolina, respectively. It follows that in general terms a decline in the relative importance of income from securities will mean an increase in the relative importance of income from loans since these are the primary sources of bank revenue. In the 1950's, interest from loans provided somewhat more than one-half of total bank operating revenue. Throughout much of the 1960's and 1970's, bank lending activities have accounted for nearly two-thirds of operating revenue.

Although there have been changes in definition and reporting categories through time, the data on bank income and expense in Tables 29, 30, and 31 are reasonably comparable through time. From Table 29 it may be noted that bank operating income in South Carolina grew from a very low $18.5 million in 1950, to $178.6 million in 1970, to $517.1 million in 1978. These are indeed impressive numbers standing alone, but if full account is taken of the growth in banking over the period and the growth in operating expenses, the gains are somewhat less impressive. Major changes occurred in all categories of income and expense and these are shown best through a consideration of the data in Table 30 which consists of each category expressed as a percentage of total operating income.

Income on loans held by South Carolina banks increased through time from about one-half of operating income to nearly two-thirds of operating income. (Loan income data for South Carolina does not include interest earnings from Federal Funds transactions.) Interest on

TABLE 29

INCOME AND EXPENSES OF COMMERCIAL BANKS IN SOUTH CAROLINA
(in millions of dollars)

Income Item	Calendar Year				
	1950	1960	1970	1975	1978
Operating Income - Total	$18.5	$51.1	$178.6	$358.0	$517.1
Income on loans*	9.4	29.3	119.4	226.4	334.6
Interest on securities	5.3	13.2	36.7	71.3	88.7
Trust Department income	0.4	0.9	2.7	6.3	8.5
Service charges on deposit accounts	1.5	4.2	10.1	18.7	27.2
Other charges, commissions, fees	1.7	2.8	5.0	11.5	19.8
Other operating income	0.3	0.6	4.6	23.8	38.2
Operating Expenses - Total	10.7	32.9	131.4	312.3	431.1
Salaries and employee benefits	6.0	16.2	53.9	101.1	135.5
Interest on time and savings deposits	0.8	4.4	33.7	99.9	137.3
Interest on borrowed money	--	0.2	1.4	12.7	29.3
Occupancy expense of bank premises - net	N.R.	N.R.	6.1	13.9	14.8
Furniture and equipment	0.4	1.4	7.1	15.2	24.5
Provision for loan losses	N.R.	N.R.	2.6	17.7	16.3
Other operating expenses	3.5	10.7	26.6	51.8	73.3
Income before Income Taxes and Securities Gains and Losses	7.8	18.2	47.2	45.7	86.0
Net Income after Taxes and Other Adjustments	$4.5	$10.1	$31.0	$38.3	$62.3

*Excludes interest on federal funds sold.

N.R. - Not reported.

Source: F.D.I.C. Annual Reports.

TABLE 30

INCOME AND EXPENSE ITEMS AS A PERCENTAGE OF TOTAL OPERATING INCOME IN SOUTH CAROLINA BANKS

Income Item	Calendar Year				
	1950	1960	1970	1975	1978
Operating Income - Total	100.0%	100.0%	100.0%	100.0%	100.0%
Income on loans*	50.8	57.3	66.9	63.2	64.7
Interest on securities	28.6	25.8	20.6	19.9	17.2
Trust Department income	2.2	1.8	1.5	1.8	1.6
Service charges on deposit accounts	8.1	8.2	5.7	5.2	5.3
Other charges, commissions, fees	9.2	5.5	2.8	3.2	3.8
Other operating income	1.6	1.2	2.6	6.7	7.4
Operating Expenses - Total	57.8	64.4	73.6	87.2	83.4
Salaries & employee benefits	32.4	31.2	30.2	28.2	26.2
Interest on time and savings deposits	4.3	8.6	18.9	27.9	26.6
Interest on borrowed money	--	.4	.8	3.5	5.7
Occupancy expense of bank premises - net	N.R.	N.R.	3.4	3.9	2.9
Furniture and equipment	2.1	2.7	4.0	4.2	4.7
Provision for loan losses	N.R.	N.R.	1.5	4.9	3.2
Other operating expenses	18.9	20.9	14.9	14.5	14.2
Income before Income Taxes and Securities Gains and Losses	42.1	35.6	26.4	12.8	16.6
Net Income after taxes and Other Adjustments	24.3%	19.8%	17.4%	10.7%	12.1%

*Excludes interest on federal funds sold.

N.R. - Not reported.

Source: Same as Table 29, this study.

TABLE 31

INCOME AND EXPENSES OF COMMERCIAL BANKS IN THE UNITED STATES AS A PERCENTAGE OF TOTAL OPERATING INCOME

Income Item	Calendar Year				
	1950	1960	1970	1975	1978
Operating Income - Total	100.0%	100.0%	100.0%	100.0%	100.0%
Income on loans*	51.1	63.5	69.1	68.6	70.3
Interest on securities	31.6	22.0	18.8	18.4	15.5
Trust Department income	4.6	4.3	3.2	2.4	1.9
Service charges on deposit accounts	5.4	5.5	3.4	2.3	1.8
Other charges, commissions, fees	2.7	2.0	2.4	2.5	2.6
Other operating income	4.6	2.6	3.0	5.8	8.9
Operating Expenses - Total	62.2	64.7	79.5	86.5	86.7
Salaries & employee benefits	39.9	26.6	22.1	19.1	16.5
Interest on time & savings deposits	8.7	16.6	30.2	39.4	44.2
Interest on borrowed money	N.R.	N.R.	5.7	6.0	8.1
Occupancy expense of bank premises - net	N.R.	N.R.	3.6	3.5	2.4
Furniture & equipment	1.5	2.0	2.6	2.3	2.5
Provision for loan losses	N.R.	N.R.	2.0	5.4	3.1
Other operating expenses	17.5	16.7	13.1	10.8	9.9
Income before Income Taxes & Securities Gains & Losses	37.8	35.4	20.5	13.5	13.3
Net Income after tax and other adjustments	23.8%	18.6%	13.9%	11.1%	9.4%

*Includes interest on federal funds sold.

N.R. - Not reported.

Source: Same as Table 29, this study.

securities declined significantly over the years as banks shifted resources to meet a strengthened demand for loans. Trust department dollar incomes grew throughout the period but its relative contributions to total operating revenues have declined somewhat, remaining less than 2 percent of operating income for most of the period. In the United States, as may be seen from Table 31, trust department income has also become a smaller portion of bank operating revenues. Service charges on deposit accounts have also declined in relative importance over the period, amounting to nearly 5 percent of operating revenue in South Carolina and about 2 percent in the United States. Other charges, fees, and commissions declined in relative importance in the 1950's and 1960's but began to regain a more substantial role in the bank revenue picture in the 1970's. Such fees, charges, and other sources of operating income are expected to rise substantially in the future. Since banks are a service industry, it is anticipated that they will charge more for specific services rendered and rely somewhat less upon interest income.

Operating expenses in banking have risen very rapidly. In South Carolina, total operating expenses jumped from $131 million in 1970 to $431 million in 1978, or 229 percent in a relatively short period of time. Operating revenues rose 190 percent in the 1970-1978 period with the result that operating expenses as a percentage of operating income have risen throughout the survey period. In the 1950's and 1960's, the ratio of operating expense to operating revenue ranged around the 60 to 70 percent levels, while in the 1970's the percentages were in the high-70's and mid-to-upper 80's range. The inevitable result, of course, is that bank profit as a percentage of operating revenue

has declined over the period. However, South Carolina banks have maintained a higher ratio of income before taxes and other adjustments to total operating income than have banks in the nation. In 1978, for example, the relationship was 16.6 percent of operating revenue remaining as pre-tax and security transaction adjusted income instead of the 13.3 percent level in the United States. If total net income is seen as a relationship to total bank operating revenue, the percentage for the United States fell from 23.8 in 1950, to 13.9 in 1970, to 9.4 in 1978. In South Carolina, the similar percentages stood at 24.3 in 1950, 17.4 in 1970, and 12.1 in 1978. Although these percentages are not measures of the final profitability of the banking industry, they are revealing of the many pressures upon bank management to maintain a reasonable level of profit for their organization.

In earlier decades it was assumed that the principal cost element in banking related directly to personnel costs. In South Carolina in the 1950's and 1960's, personnel costs amounted to above 30 percent of total operating income, but by 1978 this had declined to about the 26 percent level, or almost the same level as total payments on time and savings deposits. In the United States, as shown in Table 31, salaries and employee benefits were nearly 40 percent of operating revenue in 1950, were only 22 percent in 1970, and were down to 16 percent in 1978. Interest costs on time and savings deposits as a proportion of operating revenue rose dramatically to 44 percent in 1978. Thus, at the national level, employee costs are now less than one-half of total interests payments on time and savings accounts, while at the state level employee costs are about the same as interest on deposits. Interest payments for funds obtained from depositors and other lenders will remain

the principal cost factor in banking in the foreseeable future. Declines in the relationships of gross and net profit margins related to total operating income, as shown in Tables 30 and 31, are of concern to both the banking community and their stockholders.

Table 32 sets forth the ratios of net profits in banks to both invested capital and to total dollars employed by the banks of the United States and South Carolina. On both counts, South Carolina banks tend to be more profitable per dollar than banks in the United States. As noted earlier, South Carolina banks tend to operate with more stockholder capital per banking dollar than do banks in the nation; that is, South Carolina banks are not as highly leveraged as the average of all banks in the United States. It follows that South Carolina banks must realize a higher net profit per dollar employed if they are to have an equal or more favorable return on their stockholder capital.

In the 1950's and 1960's, banks in the United States tended to have net profits ranging from 7 to 10 percent on bank capital; profits were a little higher in South Carolina during these decades, running around 8 to 10.5 percent. By 1970, returns on bank capital were a little below 12 percent in the United States and little above 14 percent in South Carolina. In the 1970's, net profits per stockholder dollar remained about 12 percent in the United States and South Carolina for much of the time. Differing leverage and risk factors make it difficult to make precise comparisons of relative profitability based solely upon capital investment.

The relative profitability of banks based upon total assets employed is frequently more meaningful for comparative purposes.

TABLE 32

RATIOS OF NET PROFITS AFTER TAXES OF INSURED BANKS
IN THE UNITED STATES AND SOUTH CAROLINA

Calendar Year	United States		South Carolina	
	Per $100 of Capital	Per $100 of Assets	Per $100 of Capital	Per $100 of Assets
1950	$ 8.51	$.72	$10.57	$ .66
1955	7.09	.57	8.06	.59
1960	10.03	.81	10.85	.92
1962	8.83	.73	10.28	.92
1964	8.65	.70	9.31	.85
1966	8.70	.69	10.81	.94
1968	9.70	.73	10.80	.91
1970	11.76	.89	14.49	1.20
1972	12.25	.83	12.76	1.08
1973	12.86	.85	14.49	1.11
1974	12.53	.81	12.43	.99
1975	11.75	.78	9.60	.79
1976	11.41	.70	10.26	.83
1977	11.72	.71	11.06	.85
1978	12.22	.71	12.80	.99

Source: Same as Table 28, this study.

South Carolina banks did not compare very favorably in 1950 in this regard but they have done so since that time. Profit per dollar employed remains quite low, typically below 1 percent of bank assets. The general public has never understood the relatively low profit margin in banking when it is measured by the total number of dollars employed by the industry. In 1960, United States banks had a net profit of 81 cents per $100 of assets while South Carolina banks earned 92 cents per $100 of assets. The year 1970 was a banner year in this regard, as United States banks earned 89 cents and South Carolina banks $1.20 per $100 of assets. The depression effect of 1974-1975 reduced such profits to 78 cents in the United States and 79 cents in South Carolina in 1975. In 1978, United States bank profits remained at a low 71 cents per $100 of assets while South Carolina bank profits were 99 cents per $100 of assets. These measures are good indicators of overall profitability and management success but they are subject to so many factors that precise and absolute conclusions are not proper in the short run. The total impact of the data in Table 32, however, is certainly favorable to the banking industry of South Carolina and to its growth prospects.

Employment and Salaries in Banks

Total salaries and benefits paid by commercial banks increased tremendously in dollar terms over the 1950-1978 period. Indeed, the growth in dollar terms has been some 1400 percent in the United States and 2100 percent in South Carolina. As a percentage of bank operating income, however, salaries and benefits have declined over the period, as shown in Table 33. In the United States, total bank

TABLE 33

BANK EMPLOYMENT AND SALARIES AND BENEFITS IN BANKS
IN THE UNITED STATES AND SOUTH CAROLINA

Calendar Year	United States			South Carolina		
	Officers and Employees	Salaries and Benefits	Percentage of Operating Income	Officers and Employees	Salaries and Benefits	Percentage of Operating Income
	(000)	($000,000)			($000)	
1950	384	$ 1,223	31.2%	2,052	$ 5,988	32.3%
1960	610	2,835	26.6	3,860	16,277	31.8
1965	696	4,348	25.9	5,387	27,278	35.6
1970	960	7,717	22.2	7,794	53,872	30.2
1972	1,020	9,038	22.6	8,988	68,161	29.5
1974	1,154	11,525	17.0	10,981	92,178	25.9
1976	1,249	14	18.3	11,147	109,014	28.3
1978	1,316	16,7[illegible]	16.5	11,794	135,488	26.2
Percentage Increase						
1970-'78	37%	142%	--%	51%	151%	--%
1950-'78	243	1,430	--	475%	2,163%	--

Source: Derived from F.D.I.C. Annual and Semiannual Reports.

employment jumped 243 percent from 1950 to 1978, or from 384,000 to 1,316,000. In South Carolina, the growth in bank employment was even larger, with the total of 2,052 in 1950 expanding to 11,794 in 1978, or an increase of 474 percent. Total salaries and employee benefits were $18.7 billion in the United States and $135.5 million in South Carolina in 1978.

These growth patterns occurred in a period of rapid and continuing automation of the banking and payments system. In the 1960's, many observers were forecasting fairly stable growth in bank employment on the basis that additional financial and activity growth would be accommodated by improved computer technology and its applications. Such has not been the case so far. In the recent 1970-1978 period, bank personnel increased 37 percent in the United States and 51 percent in South Carolina. More and more services with more and more reporting requirements will lead to still further growth in bank employment despite the gradual implementation of an electronic funds transfer system.

The relationship of bank employment to bank deposits is set forth for selected years in Table 34. The relatively low levels of deposits per bank employee may be surprising to some. In the 1950 and early 1960 periods, the relationships were around $400,000 in deposits per bank employee in the United States and about $300,000 in South Carolina. This has grown somewhat through the years but at a rate much lower than the inflation rate. In 1978, the deposit base per employee was $768,000 in the United States and $448,000 in South Carolina. The structure of banking in South Carolina with its many branches adds considerably to personnel requirements. The fact that South Carolina

TABLE 34

RELATIONSHIP OF BANK EMPLOYMENT TO BANK DEPOSITS
IN THE UNITED STATES AND SOUTH CAROLINA

Calendar Year	Deposits per Officer and Employee	
	United States	South Carolina
1950	$400,000	$323,000
1960	375,000	265,000
1965	476,000	272,000
1970	503,000	310,000
1972	605,000	357,000
1974	647,000	352,000
1976	665,000	381,000
1978	768,000	448,000

banks do not hold large numbers of large corporate accounts also contributes to their personal requirements. Thus the structure of the banking system, as well as the size and structure of the deposit base, which is weighted heavily toward checking accounts, are both significant factors in determining the size of bank employment in South Carolina. In addition, the expanded range of financial services now incorporated under banking and the tendency of banks to under-price many of their depositor services (especially checking accounts) have led the public to use banks more extensively than in earlier decades. All in all, there is little prospect that bank employment will decine, and there are many reasons to anticipate further increases in employment in future years.

CHAPTER V

RECENT DEVELOPMENTS IN THE BANKING INDUSTRY: A GLIMPSE AT ITS FUTURE

The dynamism of the United States' economy throughout much of the 1950-1979 period is fully reflected by the many aspects of growth and change occurring in the nation's banking system. Growth and change in South Carolina exceeded that transpiring in the nation.

Structural and Size Changes

The number of banking organizations in South Carolina declined from 148 in 1950 to 87 in 1978, while the number of banking offices advanced from 197 to 749. The number of banks remained substantially stable through the 1950's but began to decline with the merger and consolidation movements of the 1960's. New charters partially offset some of the effects of the merger movement but did not keep pace. Over the 1960-1976 period there were 22 new banks organized in South Carolina, and 76 were either merged, consolidated, or liquidated. Branch expansion has continued but at a somewhat slower pace in recent years in view of an expanded system for electronic payments and cash availability.

In December 1978 there were 20 banks in South Carolina operating as unit banks and 67 banks operating with branches. Deposit insurance coverage had become universal in the state's banking structure by the end of the 1960's. In 1970, there were 26 banks in South Carolina with

deposits under $5 million; in 1978 there were only 10 banks with deposits under $5 million. In 1970, there were 5 banks with deposits over $100 million, holding collectively 53 percent of the state's deposits; in 1978, there were 7 banks with deposits over $100 million, holding 68 percent of total deposits. At the national level, in 1978, banks with deposits in excess of $100 million held 77 percent of total deposits. As a result of both growth and inflation it is inevitable that the average size of banks will grow even though the relative degree of market concentration may not change very much.

Population per bank in South Carolina grew significantly over the years, rising from 14,300 in 1950 to 33,500 in 1978. The population per banking office, however, declined significantly over the period, falling from 10,700 per office in 1950 to about 3,900 in 1978. The result of this movement has been that there are more people per bank but fewer people per banking office in South Carolina than in the United States. Personal income in South Carolina per banking institution compares very favorably with the national relationship, but personal income per branch is somewhat below the national level.

Average resources per bank in South Carolina grew from about $5 million in 1950 to $68 million in 1978 while average resources per banking office moved from slightly below $4 million in 1950 to $8 million in 1978. Again, extensive branching in the state with limited dollars in local markets has resulted in the operation of many small banking offices. On the basis of dollars held by South Carolina banks and the total population in the state, there have been some significant changes. Per capita banking resources in South Carolina grew from $340

in 1950 to $972 in 1970 to $2,045 in 1978. Nevertheless, these numbers remain far below the national averages. The lack of large money center and international banking establishments is one reason for the lower levels of per capita banking resources in South Carolina banks.

Total banking assets in South Carolina grew more rapidly throughout the period than in the United States. Dollar values in banks moved from $665 million in 1950 to $1,061 million in 1960, to $2,523 million in 1970, to $6,595 million in 1979. During all of these periods, the percentages of growth were somewhat above those attained nationally. As a percentage of total bank assets in the United States, South Carolina banks have about one-half of 1 percent, somewhat above their relative holdings in the 1950's and 1960's.

Changes in Sources and Uses of Funds in Banking

There were major changes in the sources and uses of funds in the banking industry throughout the period under survey. For a slightly different perspective on the overall shifts in bank assets and liabilities, the data of Tables 35 and 36 are useful. These are year-end data instead of the June 30 data compiled throughout the study.

Cash management in banking became a critical issue during the 1960's and 1970's as banks endeavored to maintain adequate liquidity while improving earnings. The cash and due from banks category represented 28 percent of bank assets in South Carolina in December 1950 and 16 percent in 1970, and fell to 12 percent at year-end 1978. At the same time, United States Government securities held by the state's banks declined from an extremely high position of 36 percent of bank

TABLE 35

ASSETS AND LIABILITIES OF INSURED COMMERCIAL BANKS IN THE UNITED STATES AND SOUTH CAROLINA

	United States (in millions of dollars)				South Carolina (in millions of dollars)			
	December 31				December 31			
	1950	1960	1970	1978	1950	1960	1970	1978
Cash and Due from Banks	$ 40,339	$ 52,140	$ 93,048	$ 178,327	$200	$ 237	$ 449	$ 782
Investments - Total	74,634	81,893	147,219	268,866	316	437	780	1,498
U.S. Government and Agencies	62,220	61,064	74,894	132,105	258	308	405	698
State, Local, and Other	12,414	20,829	72,324	136,761	58	129	374	800
Loans - (Net, Plus Lease Fin.Rec.)	52,456	117,999	298,189	690,525	199	460	1,380	3,329
Commercial and Industrial	21,974	43,280	112,215	228,244	74	154	426	871
Loans Secured by Real Estate	13,652	28,798	73,058	213,625	51	100	260	880
Individual and Consumer Loans	10,144	26,501	66,006	167,675	56	151	544	1,587
All Other Loans (Inc.Lease Fin.)	6,686	19,420	46,913	106,422	18	55	149	182
Other Assets	2,026	6,327	37,892	135,471	6	18	194	671
Total Assets	169,455	258,359	576,351	1,273,189	721	1,152	2,802	6,280
Total Deposits	155,751	230,220	482,514	1,016,385	672	1,026	2,419	5,278
Demand	118,465	156,512	247,170	400,285	584	824	1,602	2,791
Time and Savings	37,286	73,708	235,343	616,100	88	202	817	2,486
Other Liabilities	2,424	7,089	44,968	163,522	4	29	129	478
Capital Account - Total	11,280	21,050	48,865	93,306	45	97	254	524

TABLE 36

PERCENTAGE DISTRIBUTION OF ASSETS AND LIABILITIES OF INSURED BANKS IN THE UNITED STATES AND SOUTH CAROLINA

	Percentage of Total Assets							
	1950 (December 31)		1960 (December 31)		1970 (December 31)		1978 (December 31)	
	U.S.	S.C.	U.S.	S.C.	U.S.	S.C.	U.S.	S.C.
Cash and Due from Banks	23.8%	27.7%	20.2%	20.6%	16.1%	16.0%	14.0%	12.5%
Investments - Total	44.0	43.8	31.7	37.9	25.5	27.8	21.1	23.9
U.S. Government and Agencies	36.7	35.8	23.6	26.7	13.0	14.5	10.4	11.1
State, Local and Other	7.3	8.0	8.1	11.2	12.5	13.3	10.7	12.7
Loans, (Net, Plus Lease Fin. Rec.	31.0	27.6	45.7	39.9	51.7	49.3	54.2	53.0
Commercial and Industrial	13.0	10.3	16.8	13.4	19.5	15.2	17.9	13.9
Loans Secured by Real Estate	8.0	7.0	11.1	8.9	12.7	9.3	16.8	14.0
Individual and Consumer	6.0	7.8	10.3	13.1	11.5	19.4	13.2	25.3
All Other (Inc. Lease Financing)	4.0	2.5	7.5	4.7	8.1	5.3	8.4	2.9
Other Assets	1.2	0.8	2.5	1.6	6.6	6.9	10.6	10.7
Total Assets	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Deposits	91.9	93.2	89.1	89.1	83.7	86.3	79.8	84.0
Demand	69.9	81.0	60.6	71.5	42.9	57.1	31.4	44.4
Time and Savings	22.0	12.2	28.5	17.5	40.8	29.2	48.4	39.6
Other Liabilities	1.4	0.6	2.7	2.5	7.8	4.6	12.8	7.6
Total Capital Accounts	6.7	6.2	8.1	8.4	8.5	9.1	7.3	8.3

assets in 1950, to about 14 percent of assets in 1970, to about 11 percent in 1978. Bank holdings of state, local, and other securities increased relatively over the period, moving from 8 percent of assets in the 1950's to 13 percent in 1970, and remained about the same in 1978. Taken together, the traditional sources of bank liquidity, that is, cash holdings and short-term marketable securities, declined dramatically over the period as the banks found other means to make market adjustments for their liquidity needs. Despite heavy market pressures in 1966, 1969, and 1974, most banks made the transition quite successfully.

Strong demands for credit from both the business and household sectors brought about major shifts from security holdings and cash equivalents to more direct bank lending. Bank loans as a percentage of total assets jumped from about 27 percent in 1950 to 42 percent in 1960, to 49 percent in 1970, to 53 percent in 1978. In the process, South Carolina banks once again became aggressive lending institutions reacting to the desires of the economy rather than holding large amounts of cash and investment securities.

Bank lending changes were not confined to growth in amounts involved but included significant shifts in composition as well. Commercial and industrial loans remained relatively stable throughout the period even though the dollar amounts of such loans by South Carolina banks jumped from $74 million in 1950 to $928 million in June 1979. In the United States, commercial and industrial loans tended to run around 36 percent of total bank loans, while in South Carolina, the percentage was more commonly 28 to 30 percent. It was the consumer credit areas that changed so drastically in South Carolina

banks over the 1950-1979 period. In 1950, total loans to individuals for personal expenditures accounted for only 27 percent of bank loans in the state; by 1979, these loans represented 47 percent of total bank loans, thereby becoming by far the largest general category of bank lending. In the United States, commercial and industrial loans remained larger than loans to individuals. Real estate lending expanded greatly in dollar terms throughout the survey period but did not grow in relative terms very much. Other forms of lending also expanded by varying degrees throughout the period.

Commercial banks turned to many new sources for funds in the 1960's and 1970's in order to meet the demands placed upon them for credit. In the process the total cost structure of banking underwent many fundamental changes which are continuing into the present. Instead of a banking system primarily reliant upon demand deposits as a source of funds there is now a system that has to pay directly for the majority of dollars it employs. The provision of financial services associated with checking accounts no longer accounts for the major position of bank costs.

Total deposits expanded more rapidly in South Carolina banks than in United States banks throughout most of the 1950-1979 period. Growth rates for demand deposits in the state were even more favorable than for other deposits. In 1950, demand deposits accounted for 74 percent of United States deposits and 86 percent of South Carolina bank deposits. In 1979, demand deposits were only 38 percent of United States deposits and 52 percent of South Carolina deposits. There is every reason to believe that the role of the demand deposit will diminish still further in the future.

In relative terms neither public deposits (all units of government) nor deposits of other banks grew throughout the period. Miscellaneous liabilities, such as federal funds, Eurodollar, and other borrowings, expanded considerably as a source of funds. At the national level miscellaneous liabilities represented 15 percent of total bank resources in 1978, while in South Carolina they accounted for 9 percent of bank assets.

The total capital structure of South Carolina banks, including capital notes and debentures, increased more than eleven-fold between 1950 and 1979, growing from $43 million to $555 million. Total capital structure as a percentage of total assets remains higher in South Carolina than in the United States. In 1979, United States banks had capital of 7.4 percent of assets while South Carolina banks had total capital of 8.4 percent of assets. Subordinated notes and debenture issues by banks became operational by the mid-1960's and grew gradually subsequently. By 1978, these issues were approximately 7 percent of the total level of equity capital in both the state and the nation.

Income and Employment Changes

Bank profitability is now recognized as the best single measure of the financial health of a banking organization. It is essential that banks earn adequate profits for both capital attraction and capital retention. Over most of the period under survey bank profits have been generally realistic though somewhat below the average for most industrial groups. Bank operating income has grown rapidly but so have bank expenses. Total operating expenses to total operating income generally ran in the 60 percent range in the 1950's and 1960's. In 1978, the

percentage relationship in South Carolina was 83.4 percent and in the United States, 86.7 percent. Net income as a percentage of operating income declined from the 20 percent range in the 1950's and 1960's to the 10 to 12 percent range in the mid- and late-1970's.

Bank profits remained somewhat higher in South Carolina than in the United States. Local banks realized a higher return on each dollar of assets employed and generally a slightly higher rate of return on equity capital. The fact that South Carolina banks have retained a relatively strong base of demand deposits and a large base of consumer credit provides a partial explanation for these favorable profit relationships.

Bank employment and employee payments have risen rapidly throughout the 1950-1978 period. Both in terms of people involved and their salaries and benefits, the growth rates in South Carolina have exceeded those for the nation. Salaries and benefits as a percentage of bank operating income remain higher in South Carolina than in the United States, although the actual percentage relationship of employee costs to operating income declined for most of the period.

The number of full-time officers and employees in South Carolina banks grew from 2,052 in 1950 to 11,794 in 1978. Total salaries and benefits in 1978 was $135 million. In spite of many technological changes underway in the industry, overall growth and service expansion will lead to increasing numbers of bank personnel through the years, although the rate of such expansion should be somewhat lower than in recent decades.

Commercial Banking in the Eighties

The best indicator of the likely trends in banking over the coming decade is found in the evolving changes of the system over the past 20 years or so. The events since the mid-1960's are particularly relevant to the immediate future of the industry. Many of the changes that have occurred in recent years will be continued throughout the coming decade. To some degree, then, the industry will continue to be faced with evolutionary change rather than revolutionary change.

There is little point in speculating about the dollar levels likely to be attained by South Carolina banking over the next 10 years or so due to the rampant forces of inflation. Any dollar forecast has to be couched in terms of inflation rates and future political actions. Bank assets expanded 161 percent in South Carolina between 1970 and 1979. It is highly likely that average inflation rates of the 1980's may be greater than in the 1970's; if so, banking assets may rise from $6.6 billion in mid-1979 to a level of $18 to $20 billion by 1990 as a result of both growth and inflation.

At the national level, fewer geographic restrictions or constraints on all depository institutions may be anticipated. Branching has become prevalent among savings and loan associations and credit unions, and mutual savings banks may be given the Federal charter. Affiliates of bank holding companies now permit large commercial banks to carry on many financial activities in states throughout the nation. Non-financial corporations already hold interests in banks and other depository institutions. In addition, many proposals are extant to permit commercial banks to provide directly financial services across state lines. While the structure of banking in South Carolina will not

change as drastically as it may in other areas due to the well-established statewide branching system, it will continue to change over the years. There are likely to be fewer charters than consolidations in the state's banking industry. Overall, there will be some consolidations of mutual depository institutions amongst themselves and with the commercial banks. All in all, the total number of depository financial institutions in South Carolina will decline by the end of the 1980's. Nevertheless, the number of banking offices and points of direct contact with the public is likely to increase. However, the increase is likely to occur as an electronic connection rather than a teller-type operation. Banks cannot afford to develop and staff more and more offices through the years.

Before the end of the 1980's, almost all of the dollars held by banks will be held on the basis of interest payments. Regulation Q will have passed by the end of the decade and all institutions will have accommodated themselves to the payment of interest on deposits. As a result of the prevalence of interest payments for funds, banks will move more and more toward fees and service charges as a source of operating income. The general squeeze on profit margins will continue, and banks will have to move away from interest charges to a much greater degree than most observers have anticipated.

As a result of the widespread acceptance of the payment of interest on funds acquired, banks will use variable rates on loans to help counteract the variable costs of funds. Overall cost control will remain as a dominant theme of bank operations. In the course of such change, more and more people will realize that growth in dollar volume alone cannot be a source of increased profitability.

The amalgamation movement among financial institutions will lead to fewer differences between the traditional depository institutions and the banking system. The overall industry will grow, but the distinctions among institutional groups will not be clear as a result of changing rules and regulations. Competition for deposits and saver's dollars will remain strong, as will the demand for consumer and business credit. Certain demographic changes may be favorable to the banking industry in the 1980's. The most active age grouping of 35-44, which accounted for 11.2 percent of the United States population in 1978, will grow to a level of 15.0 percent of the population by 1980. The 25-34 age grouping will grow somewhat from 15.5 percent to 16.9 percent of the total population, while the 45-54 age grouping will remain at about 10.5 percent of the population. The overall growth in population and households will be favorable factors for the growth of banking in the 1980's.

Banks will operate throughout the decade within the context of social goals becoming an explicit objective of their operations. Public policy already dictates many of the policy decisions of banks. In an age when all establishments are continuously challenged and an era when financial institutions are regarded as instruments of social policy, it is not to be expected that there will be any diminution of public controls and influences.

As is evident from the foregoing material, growth and change within the banking industry are largely functions of growth and change in the state and the nation. This will continue to be the case over the coming decade. To the extent that optimism can be expressed about the future of

the state's economy, it can also be expressed about the future of the banking system. Recent trends provide a basis for a generally optimistic outlook.

PREVIOUS OCCASIONAL STUDIES

Published periodically.

No. 1, November 1972. "A Study of South Carolina CPA's" by Dean E. Graber.

No. 2, May 1973. "South Carolina State Finances, With Special Attention to the Property Tax" by Robert T. Collins, William F. Putnam, and Oliver G. Wood, Jr.

No. 3, June 1973. "Forecasted Changes in the Health Care Industry" by Alan D. Bauerschmidt and Richard W. Furst.

No. 4, December 1973. "An Analysis of Civilian Labor Force and Civilian Employment Changes in South Carolina During the 1960's" by J. Michael Marr and C. Glyn Williams.

No. 5, May 1974. "A Study of Economic Change in Two South Carolina Coastal Counties: Georgetown and Horry" by J. Michael Marr.

No. 6, October 1974. "Impact of the State Ports Authority upon the Economy of South Carolina" by David R. Pender and Ronald P. Wilder.

No. 7, December 1974. "Employment and Labor Force in South Carolina in 1980: State and Economic Area Relationships" by C. Glyn Williams and J. Michael Marr.

No. 8, March 1975. "Banking Activity in South Carolina, 1960-1974" by Olin S. Pugh.

No. 9, May 1975. "Historical and Functional Aspects of State Industrial Development Organizations" by William R. Thomas.

No. 10, May 1976. "The Consumer-Citizen and Community Satisfaction" by John F. Willenborg, John F. Sacco, and James M. Clapper.

No. 11, March 1977. "Experiential Learning in Marketing Education: Proceedings of the October 1976 Conference of the Mid-Atlantic Marketing Association" edited by M. Wayne DeLozier, Dale M. Lewison, and Ruth Andress.

No. 12, July 1977. "Financial Services: Household Attitudes and Practices (A Consumer Panel Approach)" by Franklin J. Ingram and Olin S. Pugh.